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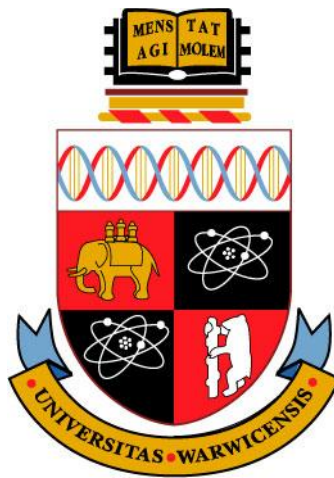
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**A Constructivist Account of Varieties of Capitalism:
State Interventions into Naïve Theories of British and
German Home Ownership and Mortgage Markets**

by

Ben Marc Jacoby

A thesis submitted in partial fulfilment of the requirements for
the degree of Doctor of Philosophy in Politics and International
Studies



The University of Warwick

Department of Politics and International Studies

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Abstract

This thesis offers a constructivist framework to set out political features in capitalist diversity that the current literatures on ‘Varieties of Capitalism’ and ‘Comparative Capitalisms’ have not fully shed light into so far. Taking these scholarly contributions as a starting point, I argue that their investigations are able to highlight the distributional outcomes in terms of which actors relatively benefit from a particular socio-economic setting. However, that they have difficulties to point to the political aspects of different models of capitalism that relate to their constitutive nature. I then suggest a method that is able to underline how the very understandings of the individual economic subject and of the state are themselves political as their definitions marginalise alternatives ways to make sense of these economic concepts. Starting from the indeterminacy of the human mind and the theoretically many ways to interpret the lived environment according to sets of ‘naïve theories’, it builds on the recent developments in constructivist institutionalism to present an account that puts the individual-state relationship at its core. As such, it breaks with the focus on production prevalent in the literature, and enables analysis of the normative depiction of a particular ideal-typical type of economic subject that then engages with consumer markets. What becomes essential is the exact ways in which a particular understanding of the state in the eyes of policy-makers leads to the facilitation of certain definitions of economic agency and market mechanisms, and the exclusion of their alternatives. The empirical chapters then apply this framework to the cases of the British and German home ownership and mortgage markets (1997-2007) to explore the discursive framing patterns that were put forward to legitimate a particular definition of the ideal-typical home owner and mortgagee in these two economies. Through the study of parliamentary debates, the findings demonstrate not only that differences exist in the conceptualisations of the economic subject, but hence also the political character of such differences as excluding each other. At the same time, such a process is shown to be deeply political in terms of the policy instruments that are not considered due to particular taken-for-granted conceptions of policy-makers themselves. In short, this constructivist account showcases the multiplicity of political aspects with regards to state interventions in contemporary capitalist economies.

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I would like to acknowledge the financial assistance of the ‘Fonds National de la Recherche Luxembourg’ (grant number: TR-PHD BFR08-053) that provided me with the opportunity to spend an extensive time on researching issues that I have been deeply interested in for many years now. Also, I am thankful towards the University of Warwick for the financial support they offered me at the beginning of my doctoral studies through the granting of a ‘Warwick Postgraduate Scholarship’. Furthermore, I am indebted to the Department of Politics and International Studies at The University of Warwick for providing me not only with a study space but also with access to a very large part of the pieces of work referred to in this thesis. For more than four years it has been my intellectual home whose marks can surely be found in this text. The Max Planck Institute for the Study of Societies in Cologne also deserves a special mention here as it warmly welcomed me for a three-months-visiting fellowship at its institution. As the references demonstrate, it is not a secret that my intellectual approach is closely related to their research interests and I am therefore very grateful for the time that I was able to interact with some of their brilliant scholars.

Many thanks are due to a number of departmental colleagues. Chris and Doug come to my mind first as my interaction points during the first year when we were leading the in-house study group for our PhD colleagues. Louise deserves a mention here as she was an excellent office mate and insightful person to chat to. Also, Yong-Soo has not only been an inspiring fellow but also a supportive friend throughout all of this process that is now coming to show its fruits. David then was always a good partner to talk to when it came to writing up and to look beyond the realm of the thesis in

terms of further developments. Furthermore, Marika has been extremely supportive in the latter stages of this work in more than one way.

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It goes without saying that my supervisors deserve a huge thank you here. It was Ben Clift himself who asked me to proceed with doctoral studies when my mind had not yet seriously engaged in such thoughts. My interest in the theme of comparative capitalisms was nurtured through his lectures and discussions throughout my time at Warwick. His wide knowledge on the subject and on British politics was with no doubt very helpful for this project. A great thank you then goes to Matthew Watson for his extensive comments on draft chapters and less professionally phrased thoughts. Also, his expertise in housing studies and social theory were important to the way in which this thesis has come together. I have always felt that I have been very lucky

with the way in which the three of us were able to engage with, not only as far as the PhD goes but also when it came to professional advice. In that sense, my studies would not have been as intellectually stimulating and personally enriching without my supervisors.

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Declaration

This thesis is my own work and has not been submitted for a degree at another university.

Chapter 1: Introduction

1 Introduction

Over the last decade, the literature on comparative capitalisms and on ‘Varieties of Capitalism’ (VoC) more specifically has exploded. According to the Social Science Citation Index, the number of journal articles about capitalist diversity has been on a steep upwards trajectory (Streeck 2010b, 57). Due to this proliferation of academic interest, it is now well established, theoretically as well as empirically, that capitalism as such comes in diverse forms or setups. The very term of capitalism then needs to be handled with care as it encompasses a large range of concrete socio-economic relationships (Thompson 2010, 197). These differences are understood to be nationally specific and are hence compatible with a study of nation-states (Perraton and Clift 2004). Hence they appeal to the research domains of comparativist scholars (Lichbach and Zuckerman 1997). Starting from a relatively limited amount of cases studied (Shonfield 1965; Hall and Soskice 2001), this academic field has now moved onto not only a multitude of analyses (Feldman in Hancké et al. 2007), and has been discussed in a diversity of ways as well (Bruff 2011).

In relation to this body of academic texts and debates, the thesis lays bare some of the developments within it and attempts to address these by setting forward a theoretical and methodological framework that is then applied to case studies. I am most interested in the ways that studies of various national models of capitalism have highlighted the political nature of such regimes. It is in this sense that the main claim of the literature consists in arguing that a constructivist perspective, built from developments in the field of constructivist institutionalism but also from approaches more firmly grounded in social theory, could present additional political features of

capitalist diversity. By building upon attempts of scholars to bring the state and hence the political characteristics back into the study of comparative capitalisms, such a perspective is said to provide a reading that focuses on some essentially political elements that have not yet been fully investigated within the literature so far. This is not to say that the Varieties of Capitalism or Comparative Capitalisms approaches are of little value or that they were unable to highlight political elements. It is much more a stance about turning the spotlight towards some complementary political aspects within capitalist variety. Indeed, it is the very realisation of potential variation in capitalist models, as highlighted in these bodies of literature, that is taken as a starting point to explore additional features of differentiation whose deeply political nature is then carved out. In this sense, the thesis builds upon previous and current contributions to the literature to demonstrate in more explicit terms how such an approach brings out political features. The body of studies critiqued is then not questioned per se, its political implications are only highlighted in more advanced terms.

As such, the thesis states that the VoC literature can benefit a great deal from further engagements with its own key reflections and objective once the latter are approached with a constructivist lens. The constructivist approach laid out here on the one hand builds upon classical sociological theory (Berger and Luckman 1966) and the insights from constructivist institutionalism (Schmidt 2009a). Such a line of investigation is set out to show how an alternative reading of the position of the individual and of the state within differential capitalist regimes can open the comparative focus onto additional political features of capitalist variety. Building on from social theory, the argument is that open-ended ontological foundations of the individual set out the

methodological base from which supplemental features of differentiation can be discovered. The concept of the individual here does not refer to each individual person as such, but to an ideal-typical individual that is depicted as the model to follow. In relation to the economic sphere, the notion of ‘economic agency’ is also used, referring to the domains of individual behaviour that refer to the economy.

Differences in the making of this individual are not located at the firm level, as the literature on Varieties of Capitalism claims, but they are located at the rank of the socio-political relationship between a particular type of ideal-typical individual and the state in a particular form. Instead of further refining the analytical concepts of the established methods of VoC (Crouch et al. 2007), I claim that a theoretical step back from such efforts that involves a connection with constructivist thinking can provide a complementary account of the varieties of capitalist organisation. I argue that such a re-reading leads to bringing out additional facets of the political nature of economic regimes, exactly through the process of outlining differences in capitalism (Hunt and Schwartz 1972, 33). It is in fact the very comparative method that enables such a view as it allows for variety and the closure of such variety through the marginalising of alternative models. If such a line of reflection is proceeded with in relation to the individual, what comes into focus are the different ways in which the individual is constituted, and constitutive, by/of the economic system in place.

Even though there have been techniques to bring out the political features of VoC they have skipped the first step of discussing the nature of the individual-state relationship first. Indeed, they have mainly argued for bringing the state back in

(Schmidt 2009b), I argue that they have only been able to achieve their aim to a certain degree. It is true that the VoC framework pays little attention to the state as an actor in the context of the economy (Hancké et al. 2007, 8), but I claim that initiatives to bring back the state on its own do not go far enough. Indeed, the analyses tend not to take as far back a step as interrogating the very relationship between state policies and the individual as an economic agent. I argue that a constructivist perspective allows from exactly such a regress. What the thesis then proposes is a framework that offers a perspective into investigations of varieties of capitalist organisation that posits a novel ontological point of departure and explores the concrete individual-state relationships as constitutive to capitalist variety and the political features of the latter. Such a break is proceeded with by pointing to contributions that are located outside the limited domain of VoC or even the comparative capitalisms literature, hence allowing for alternative theoretical and methodological reflections.

Falling back on more or less recent contributions from social theorists, I start from the assumption that the human mind is indeterminate (Vico 1744, 75). In other words, the human being is not a predetermined being through its physical constitution (Berger and Luckman 1966), but that he/she acquires specific patterns of interpretation and of sense-making over time (Ross 1997, 42). Again, the individual here is not meant to be a specific person, but the abstract individual. This means that I am not so much interested how sense is produced in a case-by-case basis, but more generally how the very economic concepts are defined on their own terms in a particular setting. This break with the natural, and hence pre-determined, constitution of the human being corresponds to introducing the possibility of variety into the domain of the human mind, hence rendering it political. Political is here understood to mean that on a

theoretical level, alternative patterns of interpretation of the lived everyday¹ world have been marginalised (Laclau 1990, 34). The mere potentiality of variance then entails political features as only a limited amount of conceptually possible interpretations of the economic domain can be adopted. The individual-state relationship gains relevance in this regard as state interventions are judged to potentially facilitate particular conceptions of economic reality and hence of economic agency within this domain. If the understandings about economic subjects are not set by nature i.e. the domain of the a-political, the study of how their perception has been coming about becomes of interest (Giddens 1986). It is here that the constructivist elements of the thesis become relevant yet again (Ruggie 1998, 857). The making of the ideal-typical economic agent through state action is what is at stake.

Relating back to the VoC literature, introducing the individual into the debate through falling back onto the work of constructivist scholars provides an account that breaks with universally valid and hence context-independent notion of the economic domain and of markets that VoC studies tend to bring forward. As the economic agent as well as economic reality, such as ‘the market’, are depicted as deeply social constructions, such a reading opens the meaning of economic phenomena to wider social events (Ryner 2003, 201). Such a perspective is unfamiliar to the VoC literature as it centres on firm behaviour and does not include the individual as such as a unit of analysis unit. Against the various politicisation techniques that focus on the state per se, such an account not only transgresses the reasons for why the state matters when it comes

¹ Even though the word ‘everyday’ is used in this thesis, the argument does not engage with the relatively recent emergence of ‘everyday IPE’ (Hobson and Seabrooke 2007, 2). The main reason is that this body of literature is only in the process of institutionalisation, which makes it hard to pin it down at this point in time.

to studying capitalist diversity, but also pays attention to the political aspects not only of state action but also of the definition of economic realities on their own right. Again, the political is first defined as the marginalisation of alternative conceptions of economic phenomena. As such, political regimes are inevitably political. However, this is achieved not through focussing on the state per se, but by introducing it only as a secondary step once an open-ended ontology of the individual has been presented.

This constitutes a move that sets out further political features of capitalist variety that tends to see the politics in the distributional effects of firm strategy. Due to its fall-back upon a theory of the individual that steps outside of the VoC domain to borrow from constructivist scholars, the thesis is able to offer additional insight into this literature. Once the ontological and methodological basis is modified upon which to reflect about contemporary capitalist regimes, an account can be set forth that adds ontologically political elements to VoC. Before the key differences between the current literature and the perspective suggested in the thesis are outlined in more detail, I shortly describe how this introductory chapter unfolds.

After setting up the argument about a constructivist view on models of capitalism in relation to the literature in question, this chapter presents its contribution to the latter. It then phrases the research question by focussing on the main rationale of the thesis and offers some methodological reflections of how the argument is delivered. In a final stage, it outlines the structure of the thesis chapter by chapter. All of these elements follow from one another and constitute the basis upon which the subsequent

arguments refer back to, from the literature review to the theoretical framework and the illustrative case studies.

2 Towards a Constructivist Account of the Political in VoC

It is now acknowledged by the secondary literature that the VoC framework “is ‘apolitical’, equilibrium-biased and downplays conflict” (Hancké et al. 2007, 8). It is said to be ‘apolitical’ in the sense that it depicts economic regimes in a functionalist way that is unable to describe sources of change (Streeck and Thelen 2005) as it presents “a rather agentless and apolitical conception of institutional adaptation” (Hay 2005, 107). This is now the common understanding of Hay’s statement, and various alterations of the framework have been set forward to address the issue (Mayntz 2006). However, what I intend to do is to explain how such accounts are still missing out in exposing particular political features, namely through a lack of engagement with the individual that follows a constructivist reading (Hay 2002, 67). The starting point of the firm to explain capitalist modes of organisation in VoC is surely insightful when it comes to study patterns of innovation and institutional complementarities (Hall and Soskice 2001, 17), but it offers limited scope to explore the integration of the individual within certain macro-economic structures (Streeck 2010a, 41). A more sociological reading following constructivist approaches can be helpful in this regard.

Also, the intellectual connections to the field of institutionalist analyses do not offer tools to explore the individual in a way that would set out such additional political elements of comparative capitalisms (Amable and Palombarini 2009). Indeed, the

focus on the firm as the point of departure to study capitalist diversity is only able to highlight political issues related to the distributional effects of certain institutional features of the production process. The example of wage bargaining strategies as investigated by Hancké and Herrman is illustrative here (Hancké and Herrmann 2007). The main political issue is with the national competitiveness of the firm, which then means that some countries experience steeper growth paths than others (p. 126). An additional process of differentiation is how well labour is able to bargain for its own wages, hence introducing distributional differences between the socio-economic groups of workers between national economies more specifically (p. 132).

In short, the sphere of the political is related to that one of competitive advantage in a global economy setting (Porter 1990). As some economies do better than others, and as some groups inside each of the economies reap more benefits than others, the notion of the political catches the ways in which the internationally created wealth is distributed between and among national populations. Such an approach matches the classic description of politics as the study of ‘who get what when and how’ (Lasswell 1936). However, what it does not investigate is the very definition of these actors, and how economic processes are perceived in the first place. It does not account for the possibility that in different regimes the actors are depicted in diverse ways, hence offering variation in the ways in which the distribution of economic goods are proceeded with. VoC not only assumes all economic regimes to be comparable, but it does so under the assumption that the definitions of the economic notions at hand are identical. The latter assumption needs closer investigation. That is not to say that regimes stop be to comparable, but more attention is required in differentiating their constitutive terms.

In two market economies for instance, VoC (in the form of Hall and Soskice 2001) assumes that the constitution of the economic agent of the private individual is the same. However, this does not need to be the case. The mere discovery of varieties in those market economies points not only to differential institutional arrangements per se as VoC analyses have outlined in multiple accounts, they also relate to differential integrations of the individual, and differential meanings of this individual. Indeed, the economic agent might relate very differently not only to the firm, but also to the very notion of the market (Carrier 1997; Jabko 2006, 32). Extended in such a fashion, the literature could then also allude to reflections about differential definitions of the ideal-typical individual, in the sense that they are differently embedded into market structures. Again, the notion of the individual here should not be taken as an individual person, but as the abstraction of the economic individual. It is then possible to imagine that the institutional differences on the level of the macro-economy, outlined by the current VoC literature, are complemented by differences in the conceptions of the individual as an economic agent as well. This is described by the notion of ‘micro-macro complementarities’, building on from the concept of institutional complementarities’ in the VoC literature (Crouch 2005c). Whereas ‘micro’ refers to the specific understanding of the ideal-typical economic agent, ‘macro’ relates to the characteristics of a particular socio-economic setting in terms of collective outcomes. These differences are then related to the position of the individual per se, but also in relation to the market and the state as a set of policies alike. A constructivist account that concentrates on the identity of the individual then brings out the political features of states and markets alike as excluding alternative conceptions of these two notions.

Indeed then, there are additional dimensions to what the domain of the political can be meant to be than those currently outlined. It is this regard that a look outside the VoC domain can contribute to a theoretical approach that takes into account the individual as an economic agent. A reference to Bourdieu is insightful here as he rejects the assumption of a universally defined economic subject as well, the very basis of this thesis.

Only a very particular form of ethnocentrism, which assumes the guise of universalism, can lead us to credit economic agents universally with the aptitude for rational economic behaviour, thereby making disappear the question of the economic and cultural conditions in which this aptitude (here elevated into a norm) is acquired (...) (Bourdieu 2005, 5)²

In other words, instead of assuming the individual to universally have the same conceptions of economic phenomena, and thus naturalising a state that is manufactured, what needs further investigating is the wider social context that such an individual is located into.

Such a perspective offers an account of capitalist diversity that reveals additional aspects of the political as it not only regards the individual as constitutive of socio-economic regimes, but also as it takes the mere potentiality of differences in the make-up of the individual as a political element. Following an Aristotelian line of thought, the human being is regarded as an inevitably political being. Once the question is posited of what exactly constitutes an economic agent, each possible answer necessarily discriminates between a range of options, prioritising some over

² This quote is indicative and should not be taken as the thesis to develop according to Bourdieusian lines.

others. Hence, the mere observation of differences in the understandings of what the proper economic individual is supposed to be indicates a process of judgement that qualifies some conceptions as more appropriate than others (Laclau and Zac 1994, 13). It is exactly this, often implicit, dimension in relation to economic agency and notions of the market that the thesis is interested in (Abercrombie et al. 1986, 5).

The domain of the political is thus not only that one of distributional justice, but also that of alternative conceptions of economic life that have been rejected in favour for one particular reading (Soeffner 2004). This act of ‘violence’ is political in itself as it leads to potentially very different economic realities (Laclau 1990, 34). Following on constructivist and ideationalist lines of thought (Blyth 2002, 10; Clift 2012), I argue that how agency and markets are conceived is constitutive of economic processes themselves. That is not to say that such conceptions are internally consistent or that they would be stable over time. Actually, quite the opposite is true. Indeed, each view of what economic life is, is characterised by tensions, themselves the representations of the originally open space of interpretation and hence reflections of their political nature.

It is at this point that the focus shifts towards the state and more specifically to the individual-state relationship. As the social context of economic life cannot be thought without the policy interventions of state actors, the definition of the economic agent passes through state action (Hay et al. 2005). Indeed, through its policy-setting and discursive efforts it can facilitate certain understandings of the individual and of markets more than others, hence playing a key role in the discrimination between varieties of subjectivities. What becomes central to the thesis in this regard is the

individual-state relationship. It relates to the concrete way by which the individual and market mechanisms are depicted, but also how these state interventions are legitimated in relation to the individual, which gives hints at how the economic agent and the market are made sense of.

Such efforts then refer to the ways in which a particular socio-economic regimes with a particular political apparatus in terms of state setup necessarily puts forward certain understandings of what the most adequate ideal-typical economic subject is supposed to be. Gramsci saw the state as central in such a process.

(...) educative and formative role of the state. Its aim is always that of creating new and higher types of civilisation; (...) hence of evolving even physically new types of humanity. But how will each single individual succeed in incorporating himself into the collective man (...) (Gramsci 1971, 242)³

What the thesis is interested in is the making of this ‘collective man’, and how such a process is deeply political, in the justifications put forward against others, but also in the way that the state intervenes into the economic regime, materially and ideationally. What is central is the process itself, how one certain understanding, even if not consistent, is rendered to be the most appropriate or, in other words, how “the political task is essentially a task of civilization and culture” (Maritain 1951, 54-55).

Such an investigation puts forward particular theories of the individual and of the state. I shortly explain which these theories are. In relation to the individual, what is central is that everyday people are seen as creatures that try to explain the world

³ As before, this quote is indicative only and does not mean a Gramscian framework is used in the thesis.

around them in a consistent way and that can be grasped in a limited set of propositions, what I refer to as ‘naïve theories’ in chapter three (Heider 1958). Again, Gramsci makes a very similar statement when he writes:

The principle must first be established that all men are “philosophers”, that is, that between the professional or “technical” philosophers and the rest of mankind, the difference is not one of “quality” but only of “quantity”.
(Gramsci 1971, 347)

The reference to philosophers means that everyday people tend to see themselves as part of structures that can be explained by systems of thought. Instead of relating to the constitution of existential issues as in the case of philosophy, naïve theories provide explanations and justificatory narratives of everyday conceptions, for instance of economic realities as described above. My theory of the individual is hence based upon an ontology that allows for variations in the ways everyday agents see themselves and market processes.

As far as my theory of the state goes, I distinguish between the state as an institution, and as a policy-making body with a particular rationale for state intervention (Jessop 1990, 207; Watson 2005, 180). This entails that (1) the institutional setting of the political apparatus and (2) the plan of actions that are enacted by the latter are taken apart (Barrow 1993, 15). At the same time it allows me to connect the two together by drawing links of how the form of the state and the policy output are linked (Cerny 1990, 88). I proceed in this way by exposing (1) certain ways in which the state actors relate to the individual, mostly in terms of legitimation (2) and how these influence the conceptions of the individual and of the market that are facilitated. The term of

individual-state relationship then comprises two aspects that are only heuristically separate. On the one hand the thesis is interested in how the individual relates to the state as an institution, on the other how certain state policies depict this very ideal-typical individual. The first dimension focuses on the institutional setup of state actors, the second on the output of the state as such. Such a distinction allows me to analyse public policies and parliamentary debates without assuming a homogenous state bloc (Watson 2005, 179).

Instead of focussing onto the firm and the production side as VoC tends to do, a method that provide a limited reading of the political, the perspective here “sees politics as an open-ended process of social self-production” and reproduction (Rupert 1995, 3). With the self coming to the forefront, it is also able to move into issues of consumption. The VoC method and its institutionalist focus renders it complicated to engage with topics of consumption as the latter mostly relate to the private individual. Hence the ways in which it engages with the individual and consumption themes go hand in hand. Their methodological focus on institutions does not give space for empirical investigations into consumption. It is also into this gap that the thesis attempts to make a dual contribution, one methodological, the other one empirical. Even though the theoretical chapters draw from the constructivist institutionalism literature, this is not to say that it reproduces the same focus on institutions as VoC. Indeed, what I highlight are the attempts of this literature to connect the individual to the institutions and policies of the state. As such, I use these contributions to highlight how they can contribute to the comparative capitalisms literature, but still present certain issues I attempt to address.

After the theoretical outlines, the thesis then operationalises the suggested framework to particular consumer markets, that of owned houses and of mortgages. Following a comparative method, it investigates the conceptions of the economic agent and of the notion of markets in the cases of the United Kingdom and Germany, depicted by the VoC literature as contrasting cases (Hall and Soskice 2001, 19). Looking into key aspects of contemporary regimes, the cases demonstrate the differential readings of economic agency and exemplify how capitalist variety can be read in complementary political way.

3 Contribution to the Literature

Even though VoC more generally is not overly concerned with the individual or consumption issues, I make these claims in relation to a wider literature, the one that comes under the comparative capitalisms banner. These points are taken up in more detail in the literature review chapter. What is important here is that the thesis positions itself against various attempts to explain capitalist regimes. Following from the reflections already offered, I am most interested in the way that a society, and hence an economy, is organised, hence how the individual is embedded into a larger context (Rose 1999). In this sense, I locate my argument in the literature that analyses the socio-economic organisation of societies. Furthermore, the very existence of variants in capitalism is itself taken as a point of departure for an extended reading of politics (Yeatman 1994, 106). In relation to this field of study, and following the limited nature of the domain of the political in the comparative capitalism literature at the moment, the thesis makes a set of theoretical and empirical contributions. Each of

them comes in three parts as they relate back to the individual, consumption and the political.

First, criticising the contemporary contributions to the VoC literature, the theoretical parts make the case for why and how the individual can be seen as a relevant unit of analysis in the context of socio-economic regimes. Building on from constructivist institutionalist approaches, the thesis provides the VoC literature with an ontological account of the individual that is novel in its own terms. A full inclusion of the individual as an economic agent is doubled with a theoretical framework that allows for varieties in the definition of the latter. As such, it introduces a complementary element of the political into the analysis. Following a constructivist perspective, it provides a starting point to extend the study of comparative capitalism towards the individual.

Second, and building on from the developments in relation to the individual, the thesis also then provides VoC with a framework that allows it to investigate issues of consumption not merely as an add-on to wider phenomena, but to study them per se. But as the individual comes in various forms, the exact way in which these issues are presented in different socio-economic contexts can also vary. It then adds to the VoC literature in the sense that such a perspective is able to evaluate the standing and the understanding of consumption more finely, in a differentiated way. As such, the thesis contributes to the theoretical opening of the existing VoC framework towards new domains of enquiry.

Third, against the recent attempts to politicise the VoC literature by bringing back in the state (Schmidt 2009b), this thesis goes beyond such moves and integrates the individual as a political element. Once an ontological starting point is set that allows for variation in the way economic agency is defined, it leads to including the state, but only in a second stage. This method then provides an alternatively political reading of capitalist diversity, an account that considers the political to be ontologically constitutive, even inevitably so, to the latter in ways that have not yet been explored in the literature. This theoretical contribution builds on from the lines of thought developed earlier in this chapter.

The empirical contributions then come in the same order. Indeed, the application of the suggested framework to two apparently different types of capitalist organisation provides the thesis with strong and detailed empirical case studies. Indeed, the definition of the individual, but also of wider economic notions is studied for the United Kingdom (UK) and Germany, the latter often being referred to as being the corner points of capitalist variety (Hall and Soskice 2001, 19). At the same time, as both housing markets display very different price trajectories, they do seem to be opposing cases. The more specific areas chosen are the homeownership and the mortgage markets, both fields of private consumption where the making of the economic agent are apparent to the way these markets work. These case studies are introduced to demonstrate the operationability of the theoretical setting on the one hand, but also offer insights in their own right on the other.

Fourth then, the case studies provide VoC with an exemplary case of how the individual can be integrated into the way in which socio-economic regimes reproduce themselves in the current era. At the same time, the differences in the understandings of that individual between the British and German case are showcasing how capitalist variety goes beyond institutional features to include everyday elements. Indeed, the economic agent him/herself is depicted in diverse fashions that go hand in hand with different conceptions not only of economic notions like the market, but also of the state as an institution. As such, the inclusion of the individual into the theoretical design links with an analysis of state interventions in empirical terms.

Fifth, the chapters on the housing and mortgage markets demonstrate how issues of private consumption can be integrated into VoC once the theoretical framework is set up in the way discussed earlier. Instead of seeing these markets as reflections of global structures of finance, the thesis analyses them according to the definition of the economic individual within them. Simultaneously, they also represent empirical contributions on their own as they provide details into the variation of how particular economic notions are made sense of in diverse socio-economic contexts. These chapters then also add insights to the VoC literature when it comes to topics it has not yet been able to cover (Schwartz and Seabrooke 2008).

Sixth, the empirical parts again showcase the extended nature of the political nature of economic regimes, taken on their own and in relation to the potential variety. Through an in-depth investigation of understandings and conceptualisations of the economic agent and other economic notions, the chapters provide VoC not only with an

example of which additional political features economic regimes are constituted of. Indeed, they also hint at the political characteristics that can be discovered through a comparative analysis of how the individual is depicted in various socio-economic contexts, here more specifically for the British and German cases. In general, the emphasis on the politics of markets and their agents within them is central to the thesis, starting from the literature review chapter.

Even though a multitude of contributions are to be made here, the central added value ought to be seen in the constructivist integration of the individual into theories of capitalist diversity, and the subsequent politicisation of the latter towards this ideal-typical individual. The focus on consumption follows on from such an argument, just as the empirical chapters highlight.

4 Research Question and Methodological Observations

Following from the theoretical points made before, the thesis first offers a theoretical account of how the political making of the individual can be studied in a deeper way than the current literature on economic regimes has engaged in with so far. It falls back on the very basic notions of how to conceptualise the individual in a particular societal context. Sociological elements are relevant as they give insight into how the individual and society interact (Foucault 1991; Campbell 2009), and how the individual then becomes to be regarded in a particular context (Joas and Knoebl 2009). This is exactly what the thesis is interested in, to study the very definition of

the ideal-typical individual itself, the making of the self as an economic agent. The central research question then becomes the following:

How can a constructivist understanding of the individual open up the field of 'Varieties of Capitalism' in a way as to provide a complementary political analysis of public policies in relation to consumption issues, more specifically in the cases of British and German home ownership and mortgage markets?

Positioned in the VoC literature, the argument sets forward an alternative approach. Indeed, what comes to the forefront are “the economic and cultural conditions in which this aptitude is acquired”, referring to the aptitude to act as an individual inside a particular economic context of market processes and state interventions. Also, a diachronic approach is taken when it comes to the empirical part as to fully bring to the forefront the political tensions in the making of certain everyday conceptions of economic agency (Watson 2011a).

The case studies then cover a time span of eleven years each, from 1997 to 2007. This time frame has been chosen as it represents the period when British house prices experiences considerable growth levels. For each economic regime, state interventions into the home ownership market and the mortgage market are analysed in order to shed light into the definition of economic agency in each of them. These markets are chosen as they represent not only instances where conceptions of the individual are vital, but also as they constitute economic loci that are central to both varieties of capitalism, even though in diverse ways as the empirical chapters show. The hypothesis is that the conceptions of the individual are consistent among the same economy as the socio-political context is similar, but that they differ between

countries as the wider conditions are significantly different. As the framework sets out the relationships between the definition of the ideal-typical economic subject and the context in which such an understanding is reproduced, the logic is that the environment acts upon the making of the individual in a consistent way. This hypothesis is taken from the VoC literature itself that uses the notion of institutional complementarities to underline that the different features of economies follow the same logic (Hall and Soskice 2001, 19). This is also why categorisations can be performed that compare the totality of economies. In relation to the thesis, what then comes to the forefront in the empirical studies are the exact fashions in which the individual is embedded into, on the one hand economic market mechanisms, and on the other hand the depictions of the latter by state actors. In this triangular relationship between the individual, the market and the state, applied to the theme of housing consumption, the thesis outlines the deeply political features not only of sets of policies but also of the process itself by which the individual is depicted as an economic agent, on his/her own and in relation to other market participants.

As regards the methodological approach, the empirical data for the case studies is constituted of parliamentary discussions and commissioned reports then discussed in parliament outlining certain policies. As such they highlight the features of the central line of thought behind such state interventions, they set out the contours of a particular rationale for state intervention to use the terminology introduced above (Bayley 2004). Once the concept of the state is conceptualised as an institution and as a set of policies in relation to the individual in this case, the justifications of a certain kind of state intervention can be traced back in debates between state actors. As such parliamentary debates are the most relevant sources of enquiry in relation to the

research question set out above. Indeed, it is especially in parliamentary discussions that justifications for specific plans of action are set forward, hence hinting at the rationale for the underlying reasons behind state policies. In these utterances, state actors make a case for their approach to various economic themes. More specifically, they are also setting out particular readings or definitions of the economic agent *per se*, as well as of how the market is supposed to work, on its own and in relation to the individual.

The character of debate is especially insightful in parliamentary utterances as it forces the state actors to express his/her views against others, hence exactly proceeding with the marginalisation of alternative naïve theories. As described above, it is this very process of construction of sense (Every and Augoustinos 2007), that can come in more or less explicit fashions, that is central to the efforts of the thesis to point towards complementary political features of capitalist variety. At the same time, following parliamentary debates allows the scholar to set out the potentially inconsistent elements of the rationale for state action, as well as spotting naïve theories of economic agency and of the market that are contradictory, or at least inconsistent. As such, the political nature of policy interventions can be tracked down in a way that allows for the theoretical focus on the facilitation of certain sets of naïve theories to be operationalised (Van Dijk 2000, 88). At the same time, the diachronic focus allows for a time dimension in the justification of economic policy.

As the capitalist economies investigated here are governed by the means of a parliamentary system, comparability is ensured. However, that is not to say that the

institutional features of the British and German parliament can be assumed to be the same. In fact, chapter four sets out a theoretical account of how to take these differences into account. The concept of individual-state relationship then not only picks up on the content of the policy outcome, but also on its form. Again then, the distinction introduced in relation to the state as an institution and as a set of policies is a heuristic one, meaning that it allows for a scholarly refinement without assuming that the two sides are ontologically separate. The theoretical as well as the empirical chapters reflect such a perspective.

5 Thesis Structure

Before going over to the argument as such, this section offers an overview of the way that the thesis develops. This is done in order to offer a comfortable way for the reader to navigate through the multiple pages but also to point at the internal consistency of the argument. Even though many sub-arguments are made throughout the thesis, it is important to show how they all connect to contribute in the ways developed above.

After this first introduction, I review the ‘Varieties of Capitalism’ literature and more generally the engagements with comparative capitalisms in relation to the way in which they bring out the political elements of differences in socio-economic models of organisation. After a short exposition of the main arguments of this field of study, I argue that its partial omission of political features relates to its inability to include the individual into its realm of investigation. I also show why and how more recent

attempts at bringing the state back into investigations of models of capitalism tend to replicate the same methodological approaches than VoC does. This is problematic, as a simple inclusion of the state per se does not lead to a more political reading of the ways that capitalist societies are constituted. At the same time, these contributions also have difficulties making sense of issues of private consumption.

Chapter three is the first of two theoretical parts that set out the framework that firstly is able to address the issues set out in the literature review and that secondly is used as the basis upon which the empirical case studies are explored at a later stage. Starting from a constructivist reading of the human being, I explore how the ontologically indeterminate character of human nature represents itself a political feature. As the human mind is posited to be open to a variety of interpretative schemes and so-called ‘naïve theories’, the nature of politics is located at the individual level. The process of socialisation and normalisation is pointed at that leads to a closure of the original state where a multitude of options of how to organise the economic sphere of life is possible. The closure of this state is exactly what is essentially political in the transcendence of the individual into a community. It is as such that the human being is inevitably political.

In chapter four the individual is linked to the state as a central institution in the making of economic realities. Indeed, in the process of the narrowing down of potential types of institutionalisations of socio-economic regimes, state actors occupy a particular position that allows them to facilitate certain understandings of economic aspects of economic life. But the state only comes in due to the specific features of

human constitution. This is where my account crucially differs from the literature as I engage in a framework that goes beyond the state per se as a universal concept. I then explore how differences in the setup of state institutions translate into variations in the concrete individual-state relationships. I claim that the form and content of policies in relation to the individual are influenced by this relationship that also plays into the ways an economic regime is legitimised in parliamentary debates. At the same time, it allows the inclusion of issues of consumption as well as a deeper reading of the politics of economic governance.

Chapters five to eight cover the empirical part. As described, the first case study is the British housing market, more specifically concerned with the state interventions into the home ownership market between 1997 and 2007. Falling back onto parliamentary debates, I investigate the facilitated naïve theories of the economic agent when it comes to the economic mechanisms surrounding the acquisition of an owned home. What is central here is the definition of the individual in relation to a topic of private consumption, but also of the economic processes more generally. Indeed, state conceptions of markets are also explored to then investigate the individual-state relationship in relation to the latter. The political elements of such interventions are relayed, at the level of the individual per se but also at the level of the policy outcomes. As such, the way in which economic policies have been legitimated also plays a role here. The main findings here are that the British policy-makers were facilitating a version of economic agency that is closely connected to the market as a self-equilibrating mechanism once state policies were able to make sure consumers were fully informed. The individual was then seen with his/her financial capacity to accumulate wealth in the housing market after having engaged in mortgage practices.

Indeed, as housing markets now involve large amount of financial resources, households are looking for external funding, mostly in the national mortgage market. Thus, in order to make sense of the practices that are related with the housing issues, it is necessary to investigate yet another consumption market. Chapter six then applies the method set out in the theoretical framework and already applied beforehand to the conceptualisations in relation to mortgage processes in the UK (1997-2007). Just as for the housing case, the central question is how the integration of the individual allows for a complementary political reading of economic processes, here as far as mortgages are concerned. The exact definitions of the mortgagee as well as of his/her embeddedness into the mortgage market are analysed (Jackson and Deeg 2008a, 683), also in relation to the findings of the previous chapter. As stated, I expect the sets of naïve theories to be consistent over these two areas of study. In general terms, the depicted ideal-typical British mortgagee is confident with the rightfulness of markets and hence engages in extensive mortgage activity, preferring flexible interest products as they allow him/her to play with the volatility of markets.

The two subsequent chapters conduct the same method for the German case. Whereas chapter seven looks into the facilitated meanings of the home buyer, chapter eight explores depictions of the financial processes surrounding the act of acquiring an owned home by falling back on external resources, hence mortgages. Apart from these chapters being empirical studies in their own right, their comparative dimension allows for other political features to be highlighted. Indeed, not only are political tensions pointed at, but so are also the differences between the German and British cases. As the novel dimension of the political lies in the closure of options of socio-

economic types of organisations, these chapters show how the same economic processes can be framed and understood in diverse ways. They display how the definitions of the economic agent and of the market, but also that of the state itself as an economic actor, vary between the cases. This variety is then interpreted in political terms. Indeed, the German home owner is characterised not merely in financial terms but also in social ones, more specifically in his/her quality as a parent. It is essential that savings were being accumulated first and that the particular home that was acquired was being used for a long time, hence hindering spatial mobility and financial upgrading in the housing sector. At the same time, the quality of the home owners was linked to macro-economic issues, not to the home ownership market *per se*.

The conclusion comes back to the theoretical argument and sums up the main empirical findings. It also engages in some reflections about future research themes following from the thesis.

In the annexes I replicate the dual empirical focus on housing and mortgage markets for the Luxembourgish case. The reasons for this additional work are practical and academic. First, as I am funded by the ‘Fond National de la Recherche Luxembourg’, the thesis requires the inclusion of an analysis of concerns directly relevant for Luxembourgish context. Again, I would like to express my gratitude for the financial support and the opportunity to be proceeding with my studies in a way that gave me the time to engage with themes that I am highly interested in. Second, as Luxembourg is yet another case of capitalist economy, these chapters are again demonstrations of

the framework set forth and empirical contributions on their own right. The chapter in Annex I thus deals with the facilitation of naïve theories in the Luxemburgish home ownership market, whereas the chapter in annex II does so for the mortgage market.

Chapter 2: Literature Review

1 Introduction

This chapter explores the broader Varieties of Capitalism (VoC) literature in order to present the intellectual context into which my research question, as described in the previous chapter, comes in. In this sense, the relationship between the existing body of knowledge and the contribution of the thesis is central to the discussion here. This chapter then maps out some of the approaches that scholars have taken when studying contemporary modes of capitalist organisation of societies. The aim is not to give a complete overview of the whole literature, but to offer commentary on the way that the thesis reads the latter to then provide an alternative framework in chapters three and four. A particular point of interest is the way in which scholars have been presenting accounts that give space to the political aspects of capitalist diversity. As the central contribution of the thesis is to provide VoC with a constructivist framework that explores additional or different aspects of the political related to economic agency in the study of capitalist variety, this review is centred on the various ways in which scholars have engaged with the relationship between the state and the individual. In this sense, I pick up on diverse strands in the wider comparative capitalism literature (Jackson and Deeg 2006a). Again, there might be different understandings of the body of knowledge, the one presented here is the one that logically leads to introduce the theoretical contribution of the thesis.

This review chapter is crucial with regard to the questions it raises as it sets the foundations for the theoretical and empirical arguments made throughout the thesis. It is here where the gaps in the literature are presented that is then filled by the subsequent explanations. Before doing so, it is helpful to explain the procedure that

the review chapter takes before the contribution is reached. Indeed there are a few steps that progressively become more targeted, moving from the literature as such towards particular issues with it. This is necessary as the contribution needs to relate not only to a very specialist domain of knowledge, but must also be embedded into larger frameworks of scholarly enquiries. As outlined, the starting point is the VoC literature in its broader meaning, not only those pieces written under this name. What this chapter is concerned with is the literature on comparative capitalisms.

Firstly, I argue that the contributions to this literature have been offering outstanding insight into the workings of different models of capitalism, but that they tend to focus on the production side without integrating elements of its political governance of consumption. They hence tend to depict the role of the state as relating to the production sphere. This is not an issue in answering their research questions, but such a perspective is not well positioned to draw out a range of political aspects of capitalist diversity are. Second, I turn towards those scholars that present a richer understanding of the political by focussing on state activity in relation to capitalist variety. I claim that such accounts only partly solve the issue of further political insights. Indeed, what is still missing is an account that is context-dependent upon the social mechanisms of legitimation in relation to the individual, that goes beyond the state as a universal category per se. I argue that it is only when an ontology of the individual is presented that state intervention is understood in terms that allow for an alternative conception of varieties of capitalism as it allows a focus on varieties of the definition of the economic subject. The notion of individual-state relationship is crucial in this context. At the same time, these reflections prepare the ground for a discussion of the relevance of constructivist institutionalism in chapter four.

This chapter is organized according to the objectives it pursues. In the next section, I start by reviewing the work of Hall and Soskice in 2001 that has led to the institutionalisation of the term ‘Varieties of Capitalism’. However, it is important to have a look at earlier writings as the theme of comparing variants of economic organisation has been described well before the millennium, especially in relation to the way that they understand the political aspects of capitalist models. The third part then explores contributions that include the state and state activity into their model of analysis for the sake of assimilating additional political dimensions into their investigations. Even though the issue of the state is treated in more complex ways in these writings, they still present a conception of the state, and more importantly of the individual-state relationship, that does not allow for variations in the ways it deals with the constitutive element of all capitalist regimes: the individual itself as an economic agent. It is here where the constructivist literature comes in later on as it more closely analyses the relationship between political actors and the general public. To conclude, the chapter explains the implications of such an approach to the political nature of comparative capitalisms.

2 Varieties of Capitalism, Precursors and Critiques

The scholarly body of VoC offers the broader environment that the thesis is located into. As Hall and Soskice are seen by the majority of scholars to have presented the central text to the literature in 2001 (Crouch et al. 2005; Hancké et al. 2007), I review their chapter first. Then the focus shifts towards earlier works on the topic before

engaging with the critiques to Hall and Soskice. Finally, the latest developments in the field are reported upon. Even though these sections present descriptive features, they do so for reasons that go beyond this literature. As developed above, this review is targeted as to introduce the gaps into which the subsequent chapters come in. As such, it focuses on the themes that this thesis is paying most attention to: the individual, the domain of the political, and consumption.

Hall and Soskice's piece (2001, p.1) is the work that has most imprinted its approach onto the VoC discipline, and their edited book has launched a whole range of responses as noticed in the reference to the Social Science Citation Index (Streeck 2010a, 57). Judging by the comments, their work is of extraordinary quality, or has at least been described as such. Indeed, some of the critics have been most eager to depict the chapter as a stellar contribution. Examples include Blyth who states that their work will become 'canonical' (2003a, 203) in the current decade, and Watson who goes on to say that the authors have 'pioneered' (2003, 227) the VoC approach. Other scholars who have referred to their findings have also been impressed, like Engelen et al. (2008) who see the whole of the VoC approach summarised in this one chapter. Similarly, Froud et al. (2007) consider Hall and Soskice as the 'leaders' (p. 341) of these studies. Howell uses the word 'superb' to describe the chapter (Howell 2003, p. 105). These references should not directly be taken to indicate the quality of the contribution, they are simply examples highlighting that this piece had a considerable influence the literature.

These accounts are certainly right in their claim that Hall and Soskice 2001 has transformed large parts of the comparative politics literature (Goodin 2003), also beyond the topics that they directly deal with. However, care is to be taken as their chapter would have been unable to be written down without the intellectual work from earlier scholars (Berger and Dore 1966; Goldthorpe 1985; Boyer and Drache 1996; Kitschelt et al. 1999). The term ‘Varieties of Capitalism’ is indeed not an invention of Hall and Soskice themselves but has been coined by Hodgson (1995, 575). Moreover, although this is a matter of denominations (Jackson and Deeg 2008b), it seems to be an overly simplified effort to equate VoC with this single chapter, or with their specific type of approach. When using this term, I am referring to a wide body of literature at the centre of which I see the pieces reviewed here. Thatcher (2004, 753) adopts a very similar approach when referring to the traditional VoC authors. The central claims of this piece then can be summed in three steps (Soskice 1999, 101; Hall 1999, 135; Hall and Soskice 2001, 1).

First, firm behaviour is influenced by national institutions (Hall and Soskice 2001, 9). As there is considerable variation among institutions, corporate strategy varies accordingly (2001, 2). However, as institutions can be categorized into two groups, firms behave according to one of two logics. Thus there are also two types of economies, liberal market economies (LMEs) and coordinated market economies (CMEs; 2001, 8). One underlying assumption is that economies, i.e. societies governed by various capitalist modes of organisation, are made up of institutions and firms. Second, different firm behaviour, conditioned by institutions, entails different comparative advantages for the economies they operate in (2001, 35). Hence, firm specialization in one area or another leads to the respective economies having

comparative advantages in one type of sectors or the other type (2001, 42; see also Lenway and Murtha 2004; Schneider and Paunescu 2012). Finally different nations, i.e. the firms in these countries, specialize in one field of industrial activity or the other. Consequently, the argument runs that LMEs are radically innovative, whereas CMEs are incrementally innovative (2001, 44; see also Ettlie et al. 1986). Third, institutions in an economy can be more or less complementary, meaning that they are mutually reinforcing each other (Hall and Soskice 2001, 27; Hall and Gingerich 2004; Hall and Thelen 2009, 254). This implies that economies with a coherent system of LME institutions and those with a coherent CME institutional setup do best in terms of economic growth. It also entails that institutions follow certain paths and are not subjected to change unless it originates from external shocks (Crouch 2005c, 167).

As can be taken from this relatively short exposition, the central VoC piece does not include an analysis of the state, even if more or less close ties to ‘the state’ are mentioned for some economies (Hall and Soskice 2001, 35). Maybe more importantly for the thesis, this account of capitalist diversity does not refer to the way in which the individual is embedded into such economic regimes. As described in the previous sections, the approach is more interested in the ways that firms behave and how that leads to international patterns of competition than with the political features of such findings. The distributional features of the world economy can come into focus, but not how the individual is perceived of as an economic agent (Hall and Soskice, 36). In general the analysis is more inclined towards the fashion in which national differences in corporate governance structures entail distributional consequences on the international level that towards an in-depth study with national economic models per se (Crouch et al. 2009). That is not to say that the approach is of no value, not at all, it

is only a comment pointing towards the partial investigation that VoC constitutes in relation to a topic as broad as that of economic regimes.

As the firm is seen as the central departure into the study of capitalism (Whitley 2000), the investigation adopts a perspective more closely related to business approaches (Hancké 2010), but then moves into much wider domains of human activity when it makes claims about capitalist regimes in their totality. As such, it inevitably offers a limited understanding of how societies work, one that is exclusively focusing on how the productive sphere is influenced by institutional factors. It is clear that such a rather narrow horizon (Allen 2004) is unable to account for what the term ‘capitalism’ is supposed to mean (Pontusson 2005, 164). At the same time, even though the literature talks about markets, the political features of the definition of such a notion are not addressed, hence leaving VoC to be an account of capitalist diversity that is little concerned either with the individual, nor with the political sphere and consumption issues.

A look at scholars publishing earlier to Hall and Soskice adopt a similar point of view, even though less restricted. Indeed, such an exercise offers hints at how wider societal issues can be integrated into VoC. Shonfield (1965) already analyses different modes of capitalist organization back in a time when most Western observers were occupied with the communist regime. Porter (1990) publishes an extensive volume that reflects about the role of firm strategy in a world of international markets. It is significant that Porter gives consumers a significant role in the developments of growth paths as he gives consumers the ultimate say in what sells and what not (1990, 86). However,

such a move is not used as to analyse the individual in more depth and hence remains in line with the firm-approach similar to VoC. The French economist Albert compares the ‘Rhenan’ and the ‘American’ model of capitalism (Albert 1993, 16). He operationalises a very similar distinction to what Hall and Soskice come up a decade later. A distinctive asset of his work in relative to my research is that he integrates discussion about households, attitudes, culture and ethical choices (Albert 1993, 44, 117, 142, 149 resp.) and thus presents a version of economic regimes that highlights their political elements. Political as it integrates questions of the ideational construction of economic realities into the framework. Moreover, the focus is specifically on the relationship between agents and institutions, something that the thesis is keen to bring back into the debate together with a constructivist focus. Coates is another example of an account that offer political features. It is not so much the integration of the state than his concern with “sets of ideational attributes” (Coates 2000, 122) that renders his analysis political in the sense that conceptions of the economic realities are not assumed to be identical between national social contexts. Again, these ideational bits are fallen back onto in the development of the framework suggested in chapters three and four.

Whitley develops a ‘comparative-business-systems approach’ (1999, 5) that can be linked to VoC. Speaking of ‘institutional structuring’ (1999, 10) as context rather than as causal factor, he describes how firms behave in a way that allows for inconsistencies (1999, 24), hence breaking with the inherent functionalism of VoC. Indeed, the Hall and Soskice piece is much more static, even deterministic, in this

regard⁴. The institutional features investigated are "the state, the financial system, the skill development and control system, and the dominant conventions governing trust and authority relations" (1999, 47). In this sense, his analysis is broader than Hall and Soskice's, offers a more historical and political account, but also includes the state as an actor in the making of capitalist variety. These accounts demonstrate that other scholars have put forward more methodologies that bring out the political sides in capitalist diversity. Indeed, by including a wider range of variables such frameworks embed firm behaviour into a social context that is inevitably political. However, they are not outlining the political features of varieties of economic subjects in relation to the individual.

In a similar line of thought, scholars have taken position for and against the Hall and Soskice piece by drawing attention to its benefits and weaker spots. Streeck for instance put forward a methodology that sees the evolution of economies as historically embedded and as inevitably political because socially embedded (Streeck 1997; 33; Streeck 2001, 9; Streeck and Thelen 2005, 1; Streeck 2005, 364; Streeck 2007, 543; Beckert and Streeck 2008; 10; see also Howell 2003, 110). Talking about the importance of economic culture (Streeck 1997, 39), he also points towards the relationship between institutions and agents as an interaction essential in understanding contemporary capitalisms. Also Thelen's notion of 'political realignment' (2004) includes interest groups as driving change, political by definition. These accounts then focus on the distributional aspects of capitalist diversity. By analysing national entities under the point of view of actors, they raise

⁴ A very similar critique could be addressed to this thesis. As I explain a bit later, what it is interested are the ways in which an ideal-typical economic agent is depicted, an effort that does not deny agential capacities.

the question of who get what, when, hence focus on the ways that the economic product is distributed among the different socio-economic groups. These studies then present a more, or at least differently, political version of comparative capitalisms as the Hall and Soskice piece, but they still do not challenge the assumption that the economic individual can potentially be different between units of observation i.e. types of economic regimes.

Just as Streeck, Hollingsworth has been writing about models of capitalism well before 2001 (Hollingsworth in Crouch and Streeck 1997; see also Grahl and Teague 2000). Together with Boyer, he coined the term of ‘social systems of production’ (Hollingsworth and Boyer 1997, 1 and 19; see also Amable 2000) which involves a complex theoretical model with multiple levels of analysis, where

It would be a serious mistake to downplay the importance of individuals and micro level analysis as we study institutions. (Hollingsworth 2000, 603)

An important point here is that production systems cannot operate in isolation from the rest of the society (Hollingsworth and Boyer in Hollingsworth and Boyer 1997, p. 190), and that the individual can be investigated in relation to wider social influences. Hollingsworth illustrates this by reinforcing the Polanyian point that capitalism, or better certain types of individual-state relationships, might undermine the social institutions that are necessary for its very success (Hollingsworth 1997, 13; see also Watson 2005a, 152). In other words, economic activity is embedded into social relations a point that the thesis is setting forward and that more constructivist approaches also highlight (Beckert 1996; Swedberg 2003, xi).

This account then offers a potential starting point into a version of VoC that additional political features. What is important here is that the awareness of the individual being embedded into larger social contexts of meaning is central to the framework that is proposed in the next two chapters. Combined with an ontology of the individual that allows for variation in the ways that the economic agent is making sense of markets processes, such a starting point actually leads to what is suggested here: an individual (in ideal-typical terms) that can take on various forms as an economic agent, according to the social influences that act upon it. As such, my argument builds on from these readings of economic regimes. They contain elements of an exposition of political characteristics, but as they avoid theorising the individual in more detail, they remain partly blind to some of them.

Crouch (Crouch and Streeck 1997; Crouch 2005b; Crouch 2005c, 167; Crouch et al. 2005; Crouch et al. 2007) also offers an insightful point of departure that breaks with the firm-centred view (Herrmann 2008).

(...) we need to deconstruct the wholes that contemporary institutionalism takes for granted and discover their constituent elements - elements which are able to survive in combination other than those thus identified. (Crouch 2005a, 440)

Indeed, one of the issues with the Hall and Soskice piece is that it externalises all other actors unrelated to the direct production process, hence taking them for granted. As such, it is unable to consider the individual-state relationship to a degree that

would add political features to the framework (Hay 2005). The thesis is then following Crouch's piece of advice by going beyond the current approaches and identifies elements other than those already identified, the individual here. Setting up an ontological basis that demonstrates why and how the inclusion of the individual into concerns of capitalist diversity not only enlarges the field but also sets out some more of its political features, is an attempt that the thesis engages in, theoretically first, then empirically through the case studies.

In relation to these theoretical developments, Jackson and Deeg not only present a good overview (2006b; 2008b) but also put forward a more complex view that links institutions to their constitutive parts (Deeg and Jackson 2007, 681; Jackson and Deeg 2008a; also see Hancké et al. 2007, 7; Hall and Thelen 2009, 8). In order to do so, they come back to notion of 'embeddedness' of institutions (Granovetter 1985, p.481; Jackson and Deeg 2008a, p. 683, Blyth 2003b; Herrigel 2005) and favour an approach that considers economic themes as being part of larger societal evolutions that comprise agents (Hall and Thelen 2009, 10). Such an approach goes into the direction of integrating individuals as genuine agents into the analysis, just as the constructivist institutionalist literature does that as highlighted in chapter four only. More generally, various scholars now seem to be agreeing on an actor-centred methodology that some scholars have advocated some time ago (Mayntz and Scharpf 1995; Dore 1997, 28; Hollingsworth 2000, 625; Wood 2001, 266; Crouch 2005b, 23; Streeck and Thelen 2005, 11; Crouch et al 2007, 527; Soskice 2007, 90; Whitley 2007, 549). However, I argue that such theoretical advancements have stayed at that stage without translating into an appropriate framework when it comes to analysing models of capitalist societies. Whereas they make the case for integrating the individual, they do not relate

to individual-state relationships, nor are they presenting arguments from social theoretical or constructivist approaches that deal with the deep ontological issues of such attempts. Again, the thesis builds upon these reflections, providing VoC with the basis for a perspective that sees varieties in the definition of the individual as political. As such, it complements the literature instead of running counter to it.

This review of the wider literature has so far demonstrated that even though there are many appealing features with the Hall and Soskice's chapter (2001), their contribution should be taken with care for a series of reasons. First, the focus on firms leads to an account that does not take into account more general variables relating to the wider societal context, especially those that relate to the individual as a consumer. Second, their approach is exclusively interested in the production sphere without mentioning concerns with consumption (Carrier and McC Heyman 1997). Third, their perspective tends not to focus on the concrete relationship between the individual and state policy as part of a particular mode of society (Streeck 2012, 17). Consequently, it offers a picture of the variations within capitalism that is very developed as far as the firm goes, but that offers less insight into the political features of capitalist variety. The introduction of the individual is then one way to add a stronger focus on the political that goes beyond the politics of distribution.

This is particularly important in relation to the understandings of institutions and economic agency. As institutions are seen as independent of actors, the concrete links between the two are not explored (Dugger 1995). At the same time, a notion agency is operationalised that is solely concerned with the maximising principles without

asking what is to be maximised (Hay 2005). As such, it presents a rather technical explanation as opposed to one that depicts the political features of varieties of capitalism. This is unsatisfactory when economic processes are related to the wider society, and to differential understandings of what the latter is supposed to be. Indeed, such an understanding can not only be found in firm strategy but also in everyday life.

(...) the way we include obligation and enforcement into our concept of institution, we can explicitly provide for a significant amount of 'play' in the rules actors are expected to follow, and thus for the possibility that institutional change may be generated *as a result of the normal, everyday implementation and enactment of an institution*. (Streeck and Thelen 2005, 11; original emphasis; see also Mayntz 2006, 394)

Even though some of the contributions presented here critique the literature and offer additional features of the political in the literature, they tend not to go as far as examining the potentially different understandings of economic agency per se. Whereas Boyer and Hollingsworth move beyond the sole focus of production (Whitley 1999, 16), and that other scholars have put forward models of analysis that take into account the social embeddedness of the economic sphere, there still exists a gap to bring the individual into the study of comparative capitalism through an ontological study. I argue that such an effort is a method that opens the subject to a different political reading as it takes the potential varieties of economic agency as the starting point to showcase how alternative conceptions have been marginalised. As the notions of institutions and agency become open to variability, they are infusing the very concept of variety with political weight. Indeed, starting from the individual

entails an approach that is deeply interested in the exact meaning of economic processes and their interpretation by official bodies.

3 Attempts to Bring the State and Politics Back In

The most common way to offer a more political focus into the analytical toolkit when it comes to comparative capitalisms have been efforts at ‘bringing the state back in’ (Schmidt 2009b; see also Skocpol 1979; Evans et al. 1985). This has been done through various methods as is presented in this section. At the same time however, they also highlight how such theoretical advances have not gone far enough for the main reason that they tend to replicate similar points of departure than those critiqued beforehand. Simply adding the state (as an institution and as a set of policies) to the existing frameworks does not bring out additional political features per se. Focussing on the state as a universal concept instead of as a relationship that centrally involves the individual as an economic agent (Elias 2010, 606), they tend to have difficulties in moving away from established approaches in the sense that they do not engage in micro-level analysis as more sociological approaches do. It is true that the state represents the cornerstone of politics at the national level, but only adding it to a methodology does not fully explore the political issues in comparative capitalisms as the state is regarded per se, without being further analysed. Again, what such a rationale underlines are the distributional consequences of state intervention, but they do not challenge the assumption that the very definition of the individual as an economic agent allows for variety. It is in this sense that such contributions still present a picture of capitalist diversity that does not present some of the central political issues in varieties of capitalism. I claim that it is only when the ontological

foundations are set up in relation to the individual that the political aspects of models of capitalism can be started to be presented more fully.

One way to include the state into capitalist variety is by identifying one variant where the state as an institution and as a set of policies is considerably more developed than in the others, hence differentiating between regimes where the state has a considerable function in the economic management and those where that is not the case (Schmidt 2002b, Jackson and Deeg 2008a). The classical case here is the observation that in the French regime, the state plays a much bigger role in coordinating the economic sphere as is the case for other setups (Carney 2006; Clift 2007). My concerns with such a line of action are double. First, even though it looks more closely at actors internal to the state, the analysis stays at an institutional level in the sense that actors are seen as being of a collective nature. The investigation is not concerned with the definition of the individual, or the self, as such. Second, and more importantly, depicting the state as essential in some forms of economic regimes and not others does not demonstrate why it is a relevant unit of analysis altogether, it might actually serve as much to demonstrate that it is not worth of investigations. Indeed scholars render the significance of the state dependent on very particular configurations and cases, and hence deny its importance in absolute terms (Palier and Thelen 2010, 123). For all the other cases, the state is seen as not important. As such, such a strategy is not forceful in bringing the state back in, nor in depicting the politics of the state. Indeed, the political features only relate to the distribution of power in a specific context of governance structures (Goyer 2006).

In other words, the state is not seen as ontologically constitutive of the political regime, it is not a variable to take into account independent of state action. As such, these scholars focus on the outcomes of the state much more than upon its very nature (Loriaux 2003) which matches with their focus on distributional issues. The state acts upon other institutions, influencing the latter to change their decisions, just as in the case of the firm-focus in VoC. The linkages between the state and firms are exemplary here. But because this strand of literature does not take into account the relationship between state action and the individual, it does not ground the relevance of the state into an ontological precursor. The state matters for its own sake, not for how it facilitates certain ways of making sense of economic processes. Again, the underlying focus on production and not on private end consumption pushes such analyses to avoid confrontations with policy effects that go beyond their institutional impact (Patalano 2007).

As a complement to such attempts now stand calls that highlight the importance of fully internalising state behaviour into an analysis of models of capitalism, independently of the concrete outcomes per se (Martin 2005, 53). Such claims are seen as strategies to add political content to the literature and present various reasons for such an endeavour. For some scholars, the structure of states influences firms, either through policy-making (Martin 2005) or through particular types of regulation (Regini 2003). Others conclude that the world economy cannot meaningfully be explained in empirical terms when no state component is included (Watson 2003). Even though these stances are valid on their own terms (Levi-Faur 2006, 367), they tend to reiterate the context-independent methodology of VoC when it comes to studying national forms of capitalist organisation. Indeed, the main issue is that they

assume a static definition of the state that does not look at the concrete processes that underlie national models of capitalism (Jackson and Deeg 2008a, 699). States are regarded as meta-social entities whose meaning and roles are stable in space and over time, hence that do not allow for variety in how they relate to the individual.

Indeed, the statements refer to the state as a notion that is equally applicable to the political apparatus in all countries, at least those with a capitalist economy. As such, they do not acknowledge the historical formation of state apparatus and different national traditions (Clift 2012, 8). The literature in state capacity is insightful in his regard.

State action is also a deciding factor in explaining the different trajectories of change of otherwise seemingly similar types of national models. (...) compare Denmark and Germany (...) which nevertheless followed markedly dissimilar paths of change since the early 1990s. This is attributed largely to the differing roles of the state. In Denmark, a large state (...) provides state actors with both an incentive and the capacity to sustain macro-level corporatist bargaining. Public sector workers find a strategic political ally among low wage workers and together are powerful enough to induce workers and employers in the export sectors to sustain national bargaining. (...) In Germany, a much smaller state with less capacity could not sustain macro-level corporatism under similar conditions, and German firms maintain institutions of coordinated capitalism mostly for the manufacturing sector. (Jackson and Deeg 2008a, 699-700)

However, it might be overly hasty to hold up such the assumption of the universal concept of the state without further looking in more detail into the potentially

different constitutions of states in relation to the economic subject. Such analyses tend to make theoretical statements about state behaviour with universal validity that follow from empirical observations that are necessary context-specific. In the quoted section, the Danish and German states are taken to be of the same nature, but to act in different ways. The political features are then related to the distribution of power that policies have among other actors. However, what is not investigated is the more concrete understanding of the state in terms of the conceptions held about what it is to be and to produce in the first place. As such, they do not take into account the potential variety that exists in the ways that state action influences not only institutions but also how individuals and policy-makers make sense of the very economic regime (Gamble and Kelly 2000, 33-4; Lehmbruch 2001, 80).

At the same time, another issue with such arguments is that they are unable to set out the state as an entity that is worth of studying for ontological reasons. Starting from empirical cases and then universalising the key findings, they repeat the method of those scholars that see the state as only crucial in certain settings (Bevir et al. 2003). Indeed, unless a method is operationalised that makes theoretical arguments that depart from a universal basis and only then moves over to the empirical case studies is able to circumvent criticisms that the findings are context-dependent. Otherwise, the claims still only reflect those cases studied and are unconvincing in putting forward an argument for the ontological significance of the state under all conditions. In other words, before studying the state as a legislator, its significance needs to be proven with causally prior concepts. That is not to say that the context is not important, actually quite the opposite is true as becomes obvious in the next chapters. At this point, the argument is only about the chronological order in which certain statements

need to be made in order to come to an alternatively political reading of capitalist variety (Hansen 2008, 5). That is why the thesis starts with the individual and only then introduces the state as a secondary unit of analysis, logically following from the first. The thesis claims that the political features of capitalist variety that go beyond the distributional implications of state policy lay in the very differences of how the individual is integrated in relation to state policies. These political characteristics then lay anterior to the state per se.

In other words, the comments reviewed here are welcome critiques of the literature, but they do not provide advanced accounts of the political domains of capitalist variety. Even though new advances are being made in exploring the links between states and individuals (Hay and Gofas 2009), they still see the state as a legitimate object of study per se, not so much because of its relationships that it entertains with the individual. They hence still see the state as a concept that is prior to the individual, not vice versa (Alber 1988). The analysis is unable to refer to elements higher up the causality chain that would explain the relevance of the state in such terms. I argue that it is necessary to introduce such ontologically prior elements upon which a deeper reason and way is found to integrate the state into the study of comparative capitalisms. As such, the state does not matter for the sake of itself, but due to the way that it interacts with the individual, that is also why the concept of individual-state relationship is central to the thesis. The presentation of an open-ended ontology of the individual is the cause for why the state is a relevant unit of analysis. Indeed, what is fundamental is not the state per se, but the individual-state relationship, the latter entailing a distinctively political understanding of differences in the setup of socio-economic regimes, and of economic subjectivities themselves.

In relation to this, several scholars have started to explore promising theoretical routes that highlight the deeply political relevance of the state as an actor in society and hence in the economic domain. If modern markets are best made sense of as complex loci at the interplay of firms, states and individuals (Fligstein 2001), then the reasons for why the state matters must be found in elements that are ontologically prior to states as historically specific constructions (Woll 2008, 10). The state not only matters for what it does in material terms of institutional regulation, but also for how a particular rationale for state intervention facilitates particular understandings of the individual self in a specific state-market setting (Rose 1999). If the economy is always dependent on state guidance as markets are creations of states (Lutter 2011), then states matter beyond their institutional impact. These theoretical reflections are better able to bring back in not only the state, but also the political features of capitalist diversity. Once states and markets are not seen as separate or acting upon each other, but as ontologically much more intertwined, state action becomes constitutive of market mechanisms. The notion of ‘market-making’ is of value here (Clift 2012). At this point, it is only a matter of presenting an open-ended ontology of the individual to show how state policies can potentially define economic agency in various ways, marginalising alternative conceptions and hence acting deeply politically.

Indeed, the statements that states act upon markets should not only be taken on the institutional level where firms adopt their behaviour in relation to state policies, but also at a more constitutive one. The very notion of market only makes sense when the underlying economic actors are taken into account, meaning individual agents. But it

also means that markets, and economic realities more generally, cannot be taken to be exactly the same in different socio-economic environments, as state mechanisms are essential in the very definition of a particular type of economic individual. The state, the market and the individual are all social constructs that act inside the same meaningful context, and as such the depictions of state policies in relation to all three notions become open to variability. Again, it becomes obvious how a constructivist account starts to come together here. Such variety then is interpreted in political terms as in facilitating certain readings of the interconnections of the individual, state policies necessarily reject the legitimacy of all alternative conceptions that are possible to imagine, or even possible to observe in different contexts. This is why the thesis is comparative in nature, as this method sheds light into the alternatives as to how to make sense of the economic agent and the market.

As outlined in the introductory chapter, the perspectives that serve as a basis for the framework developed in the next two chapters borrow elements from outside the VoC literature. As such they follow classical political economists and contemporary economic sociologists. Against a 'productionist bias which pervades most of social science' (Campbell 1987, 7), both offer a picture of capitalist relations that is concerned with the individual and consumption issues. Just as outlined by Thorstein Veblen, I regard market economies as historically specific constructions that are related to the prevalent ideas at a certain point in time (Swedberg 2003, 104). He was for instance interested in the ways that the individuals play their role in the economy, as a potential entrepreneurs (Veblen 1904) and as a consumers (Veblen 1899) alike. This thesis still considers the economy, and hence a particular variety of capitalism, as being embedded into a larger type of society (Zafirovski 2000; Beckert 2007), and

that the production and consumption side are two aspects of economic life that need to be studied in parallel. I argue that an approach starting from the individual and investigating social relations, in this case those between the state and the individual as far as housing and mortgage markets are concerned, leads to a complementary way of how the political aspects of examinations of various forms of socio-economic regimes can be brought out more distinctively.

Indeed, building on from theoretical reflections offers a starting point that allows for variations in its very core, hence offering a unique point of departure that still accommodates for variety. Such an approach is then able to deal with the particularities of the case studies that are presented later on in the empirical chapters. A focus on individual-state relationship is also a way to integrate a large field of potential topics of political economy, might they be more closely related to the production or the consumption side. As the thesis wants to demonstrate how concerns with the latter can also be seen as part of the debate on capitalist variety, it chooses case studies that underline such a contribution to the current literature. The empirical analyses of state interventions in the British and German housing and mortgage markets are examples of how a focus on individual-state relationships is applicable to consumer markets that have become essential under capitalist developments. At the same time, they are showcases how such an approach entails a move away from production issues towards concerns with how the individual is embedded into a larger context of markets which he/she daily interacts with (Martin 2002).

Crucially, such a perspective puts the individual-state relationship at the very centre of it intellectual endeavours, which adds political aspects to the debate on capitalist

models to a degree that surpasses the contemporary discussions. Indeed, bringing in the individual into the study of politics is what is really novel here, a novelty that enlarges the notion of varieties to the very definition of the economic subject, to varieties of subjectivities, complementing varieties of capitalisms understood in institutional terms. The political nature of capitalist diversity then not only lays in its distributional effects, but also in its constitutive elements, hence the conception of the individual and the market themselves. What then comes to the forefront in the cases studies are the ways of which the individual makes sense of economic processes in relation to a specific conception of the market and the state, as an institution and a set of policies.

This section has thus demonstrated how attempts to offer additional political features to the analytical frameworks to study capitalist variety have been endeavours that point into the right direction, but that have difficulties to break with the VoC background in a way as to set out a qualitatively different approach. The literature that this thesis then addresses is not merely the one dealing with the variants of socio-economic organisation, but more specifically the contributions that have already been made to add a political dimension to this body of knowledge that goes beyond the political as understood in distributional terms. The central contribution lies with the presentation of an alternative point of departure into the study, one that sees political features not merely as an addition to economic processes and various modes of governance, but that locates the very notion of the political in the potential varied rationales according to which capitalist societies can come together. The domain of the political is hence not limited to the characteristics of the state and its institutional output, but needs to be located in the interaction between the individual and the state.

To use Schmidt's words (Schmidt 2009b), the thesis is not an exercise in how to bring the state back in, but to move beyond it by locating its ontological basis in the variability of the human mind and hence to bring politics back in.

4 Conclusion: Towards a Differently Political Account of VoC

As explained beforehand, the main objective of the thesis is to introduce a different political reading into VoC and the wider literature on comparative capitalisms. Building on from the scholars who are attempting to introduce the state into these endeavours, this piece only sees the state as a unit of secondary importance, in the literal meaning of the terms. In other words, the state is not worthwhile of analysis just because it is often seen as the cornerstone of politics, but because of the constitutive relationship it nurtures with the individual. As such, the investigation here goes beyond the state as a universal concept and locates the political domain in elements ontologically prior to the state. The modern state must be taken as a historically specific construction (Bonney 1995), one that is embedded into larger meanings about the individual, the market and the legitimation of the state itself. Such a perspective (Jackson 2006) allows to deconstruct the concept of the state into an institution that is in a relationship with the individual.

It is this opening towards potential variability not only of institutional features as the VoC literature so successfully demonstrates but of the concrete individual-state relationship that introduces deeply political features into the ways state policies act in relation to the economic regime. As the facilitation efforts of some conception of the

individual always come with elements that legitimate the latter and delegitimizes others, state policy must be seen as political, as adopting some assumptions of good economic life over others. These efforts are tracked down through an investigation of parliamentary debates that showcase the narratives of legitimation and delegitimation that were present in relation to the British and German homeowner/mortgager (1997-2007). After a discussion of various types of state discourse in chapter four, the implied meanings of state policies in relation to housing and mortgaging are analysed empirically.

What then becomes of prime interest is the triangular relationship between the individual, the state, and the market as well as other economic mechanisms. It is hence not merely that the state is added onto an existing framework, but the state plays a central role in the understanding of the economic agency and of the economy more generally. Such an approach follows from perspectives that integrate societal variables into the study of comparative capitalisms and hence refute their distinction into separate fields of enquiry (Zafirovski 2002, 2). At the same time however, it does not fall into anecdotic story-telling whose character is limited to a very particular context (Jessop and Oosterlynck 2008). The aim is not to follow a certain individual and relate back how he/she makes sense of economic processes but to track down the ways in which the individual as such is depicted in relation to the latter by official authorities. Again, the individual here is understood as a theoretical category then, not as a specific person.

Once such a point of departure is chosen, it leads to consumption issues in a way that the VoC contributions are unable to engage with. It breaks with the productionist bias (Hancké et al. 2007, 7) and opens up towards issues of how the individual is made sense of, as a consumer of housing and of mortgages for instance. Such a break from VoC then allows to complement this literature with an alternative framework, one that is not focussing onto the firm. Instead it provides a toolkit for investigating the individual, its relationship with the state, and concerns with markets from a point of view that is supplementary to the literatures mentioned. In this sense, the notion of ‘markets as politics’ applies to this thesis (Fligstein 2001, 98; see also Zelizer 1983; Stehr 2008). The thesis makes a contribution to the literature that sheds a different light onto comparative capitalisms and its political nature.

In relation to the concept of institutional complementarities (Hall and Soskice 2001, 17; Hall and Gingerich 2004; Palier and Thelen 2010), the thesis introduces the concept of micro-macro complementarities. Such a notion reflects the focus on the relationships between the two levels of analysis. It points towards the theoretical observation, later demonstrated empirically through the case studies, that consumer markets require the constitution of particular types of market agents that match with the conceptions of this market more broadly. In other words, the conceptions held about the individual match with those about markets, as the former are constitutive parts of the latter. This is not a finding in itself but follows logically from the theoretical framework set out in this chapter and refined in the subsequent parts. What it highlights however is how the individual must be seen as a constitutive part of the market, and how state actors frame both in a way that is consistent, at least at the first

glance. This notion is referred back to when the form and content of policy initiatives are discussed in chapter four.

To conclude, this chapter has explored the vibrant VoC literature, starting from its most influential text. It has shed light into various perspectives on a range of issues that are relevant for the research that I am engaging with, most centrally how the literature has performed in regard to provide a political account of capitalist diversity that goes beyond the distributional features of various economic models of capitalism. At the same time, it has also shows how this study fits into a distinct lineage of reflections and how it builds on the current state of knowledge, even though it goes beyond it. Apart from the theoretical contributions, the thesis also offers a great amount of empirical insight into the case studies. So even though the prime rationale is to lay bare a novel methodology of how to study capitalist diversity, the empirical chapters also present arguments that are valid as contributions on their own right. However, before going over to the empirical parts, the next two chapters lay the foundations. Building on from the incomplete treatment of the political features of models of capitalism, they present an ontological basis that explains how and why the individual and the state alike can be seen as constitutive of the variability, and hence the political nature, of capitalist types of socio-economic organisation.

Chapter 3: Why the Individual and the State? The Politics of Naïve Theories

1 Introduction

The previous chapter has outlined how accounts in the comparative capitalisms literature offer an exposition of the political nature of these regimes that is centred on distributional issues. Indeed, it has pointed to their relative failure to adequately define the state in relation to the individual and vice versa, and hence does not allow for variety in how economic agency and markets are understood in separate socio-economic settings. The firm-centred focus of VoC depicts economic regimes as technical sets of productionist relations without investigating the individual-state relationship in more detail. I have argued that it hence misses out upon certain deeply political characteristics of capitalist types of organisation, located at the individual level (Hay and Lister 2006, 10). This chapter then takes on the described weaknesses and goes back to the fundamental questions of societal processes in order to position the individual into a context of sense-making that allows for variability in interpretative schemes in relation to the lived environment. As such, it follows constructivist lines of thought as set out in academic texts that are located outside the domain of comparative capitalisms. As such, the thesis introduces the definition of economic agency per se as a political issue by falling back onto concepts from sociology and social psychology. These help set up an ontology (Hay 2002, 61; Hay 2007) of the individual upon which an alternative understanding of economic regimes are established here and in the next chapter. Whereas this part makes the claims for why the individual matters, the next one relates such a finding to the constructivist institutionalist literature to set out how various forms of the state, or polities, entail different political features for the individual-state relationship (Herrigel 2005, 560; Hay 2006).

Only if the individual is approached through a rethinking of his/her position in relation to institutions, hence through an understanding of micro and macro elements (Marchart 2003, 81), is it possible to come to a rationale that includes the definition of economic subjectivity into the analytical realm. It is by positioning the individual inside varieties of capitalist regimes that the thesis provides a broader picture that includes additional political features that go beyond those of distributional issues (Zizek 1991, 193). This becomes apparent in the subsequent chapter when the institution of the state and variants of state structuring are laid out. At the same time the case studies in chapters five to eight (and the two annexes) offer empirical demonstrations of the claim made here. In this sense, chapters three and four form the framework of the thesis, with chapter two having explored the literature in relation to which the argument is taking a stance.

I claim that because of the firm- and production-centred perspective on economic regimes, comparative political economists have not approached housing and mortgage markets until recent years (Schwartz and Seabrooke 2008 are an exception here). For most of the time, these issues have been considered to be research domains outside the domain of VoC. Even though scholars have offered valuable attempts to address these topics (Blyth 2008; Broome 2008; Schwartz 2008; Sofus Tranoy 2008; Crouch 2009; Hay 2009; Watson 2009b), they have not yet sketched out a coherent framework that integrates the individual into these economic processes. The arguments proclaim the possibility for the state to act upon financial agency, also as far as housing is regarded (Robertson 2006; Langley 2008; Ronald and Nakano 2012), but they have so far not explained why such intervention is possible in

theoretical and ontological terms. I hence argue that this chapter has the potential to put forward a scheme of investigatory methods that can depict additional political processes of capitalist diversity, especially as regards housing and mortgage markets.

What is at stake here is not only the individual and various conceptions of economic agency, but also the concept of economic rationality in terms of its heuristic value and the positioning of its limits. Once economic agency is subject to variability, the universal nature of economic behaviour in the form of ‘rationality’ is rejected (Zafirovski 2000, see also Bourdieu quote in chapter one), the thesis goes on to offer a revisited i.e. extended notion that is called ‘axio-rationality’ as it essentially embeds the way of how people behave into a set of larger issues of social meaning upon which it is contingent (Boudon 2002, 22). However, before doing so, an ontology of the individual and its social relationships with his human and institutionalised environment, i.e. the state as an institution and a set of policies, need to be sketched out in order to visualise the introduced concept in a coherent way. As developed in the previous chapter, the intrinsic issues with the comparative capitalisms literature lay in how it envisages the individual. As described, the thesis then follows classical political economists in the conviction that an investigation into economic matters always presupposes wider interests, with the individual and society (Veblen 1904; Aspromourgos 2011, 83). However, the texts referred to here are taken from the constructivist strand.

By “starting at the start”, hence the ontology, and not with the state already, this chapter lays out an alternative understanding of human behaviour, later exemplified when it comes to housing and mortgages. It is a perspective that regards economic

behaviour and rationality as contingent upon a wider societal context of ways to understand i.e. make sense of the economy (Bieler and Morton 2008, 110). An open-ended perspective of human rationality then gives explanatory capacity to factors that are usually taken out of the study of economic relations. This is hence a shift away from the firm-centred approaches towards the study of individual-state relationships in the context of consumer markets. By digging into the economic subject/self not only are additional elements of capitalist variety highlighted, but so is the inherently political i.e. exclusionary nature of variations of human schemes of interpretation (Hansen 2008, 5).

This chapter starts to draw out the political aspects of models of capitalism from the bottom up as it focuses on the ontological priority of the individual. In the subsequent chapter, the argument moves forward into this direction. As outlined, the thesis attempts to bring the political back in, although not immediately through an integration of the state as such (Phillips 2005, 90; Weiss 2005; Schmidt 2008b), but by firstly questioning the understanding of the individual and its political constitution (Watson 2005a, 31). The state is considered (in section four) because its importance arises from the ontology laid out in section two and the notion of axio-rationality developed in part three here. Its relevance is intrinsic to the model of explanation brought forward and does not only constitute an add-on to explanatory framework of capitalist variety as some contributions to the comparative capitalisms literature tend to do (Hollingsworth and Boyer 1997). Hence the centrality of the individual and of the political is the cause for the integration of the state and not the other way round. The thesis claims that such a view is able to make a stronger case for an analysis of state intervention than the current VoC critiques tend to do (Jessop 2010).

This chapter unfolds in five sections. After the introduction here, part two examines the human nature of the individual and the constructed features of collective life through a constructivist lens. The openness of the human mind is pointed at, as is its need for structures of moral interpretation. Section three goes on to integrate those structures into the concept of economic rationality, which brings up the notion of axio-rationality as well as those of means and ends. Fourthly, the relevance of state activity is explained by the ability of state policies to act upon those interpretative frameworks. The politics of such involvement is shed light into as well. Finally, the conclusion recapitulates the argument and bridges towards the next chapter that deals with different types of state-individual relationships.

2 An ontology: The Indeterminate Mind

The opening of the human mind to different sets of naïve theories provides a critique of economistic (Higgott 1999, 26; de Goede 2003, 80), hence limited, conception of agency. As the VoC literature is unable to present a theory of the individual, this is where this framework comes in (Hay 2005). I then argue that not only does such an understanding narrow the view of what to integrate into debates about differential socio-economic modes of capitalist organisation, but also that it is the cause for two further interlinked flaws, first a conception of rationality that artificially extracts the economic from its social environment (Zafirovski 2000, 186) and second, a conception of the political that is limited to distribution issues. However that is not to say that the individual is the wrong point of departure (Boudon 2002, 12 and 2003, 394), it only means that an alternative, more open ontology needs to be put in place.

Because the treatment of the individual is so central to the argument that is put forward in the thesis, I start by outlining an ontology that puts the individual, and subsequently the state, back into the study of economic regimes (Watson 2007). By doing so, the social and the political are connected to the economic (Beckert and Streeck 2008). Sociological elements and insights from social psychology are taken as points of departure to investigate the nature of the human mind, as well as variations in moral frames of meaning and collective behaviour, hence politics (Edkins and Pin-Fat 1999). The argument develops through five stages: the Indeterminate Mind; human sociality; interaction and naïve theories; the normativity of collective life; and politics as exclusion. By engraining politics into everyday meaning of the economy, and enabling for varieties of interpretation of good i.e. appropriate economic behaviour, the thesis shows how variation in the definition of economic subjectivities is produced and reproduced, and how such variety is political.

The starting point in this endeavour is best summed up with Vico's words.

(...) I propose here the following *axioms* (...) By its nature, the human mind is indeterminate. (Vico 1744, 75, original emphasis)

At the start of the 18th century, the philosopher Vico claims that the human mind is indeterminate (1). Together with his 'verum esse ipsum factum' ("the true itself is made; Von Glasersfeld 1997, 75), he expresses the idea that the truth, or what people take as truth is 'made'. By stating that the mind is indeterminate, he takes distance from any materialist stance that the human body, and with it the human mind, are predetermining factors in the way that our species can interact with each other and

with the environment. Current scholars interested in the distinction between material and ideational domains adopt a very similar attitude to Vico (Sorsensen 2008, 7; Cartesen 2010, 849). Theoretically speaking, he posits that the human being as such is an unfinished product, it always in the making (Butler 2000, 12; Bröckling 2007, 19), that it can adapt to various social circumstances and that its existence involves a process of acquiring a mode of how to make sense of its own situation (Béland 2008).

More than two-hundred years later, Berger and Luckmann claim that even though the materiality of the human constituency is a limiting factor in what the individual can do and be, it cannot be seen as strictly determining the way by which the human mind makes sense of the collected experiences, present and past (Berger and Luckmann 1966). All constructivist theory must by definition start with the assumption that varieties of interpretations exist. Some political economists have fallen back onto Braudel to make this point about the elasticity and indeterminacy of human life (Germain 1996). Indeed, the whole idea is not only that reality is constructed (Guzzini 2000), but also that it can be constructed in different ways, at least two. In order for this to be possible, a necessary condition is the indeterminacy, plasticity (Berger and Luckmann 1966, 66) of the human mind, as construction takes place in the mind (Grafstein 1997, 1042), as opposed to the material world imposing itself on it. In other words, constructivism and its extension in terms of varieties of conceptions of the lived environment, in time and space (Watson 2005a, 18; Bröckling 2007, 31), can only exist once the material determinacy of the human mind is rejected. In this sense, constructivism is anti-essentialist (Alker 1990, 163; Schmidt 2001b, 140). This affirmation about the individual forms the core of

constructivist thought (Sterling-Folker 2000, 98), and is the point of departure by which this thesis is approaching the issue of comparative capitalisms and differential logics in housing and mortgage markets. Indeed, if there is no naturally given way to consider or make sense of these two domains, then varieties in their constitution itself are possible, and political. That is not to say that differences are necessarily observed, it just puts forward the mere possibility of varieties of housing regimes.

By doing so, this perspective pulls together two distinct areas of investigation in order to bring out the deeply political character of the individual itself, more precisely of the conception of the individual. This might seem as a long warm-up to the final argument, but it is crucial to point out that, in my view, varieties of capitalism are only possible because varieties of constructed realities are possible. Previously, I have criticised the literature for not clearly discussing its ontological position of the individual and claimed that this then filters through the firm-centred approach that follows. Against this approach, I foreclose that this thesis can only be fully appreciated if the reader shares its ontological position, even if this might only be for the time he/she deals with the chapters presented here.

On the one hand, taken individually, the human mind is indeterminate; on the other side it also seeks the contact with other human beings. Social psychology is littered with examples and experiments showing that the human individual, at the stage of birth or in adulthood, is profoundly affected by the people surrounding him/her (Hogg and Cooper 2003). Human affection and recognition is one of the ultimate drivers of action. In sociology, Durckheim's *Suicide* shows that people across cultures with very few ties to peers are much more likely to put an end to their

existence than those in company (Durckheim 1989). The ethnomethodological approach displays that people rely on collective schemes of interpretation in their everyday life, and that 'breaching' those patterns of commonly shared patterns of sense-making is profoundly disturbing to them (Garfinkel 1984; Pollner, 1974; Odysseos 2002, 374; Rasmussen 2008, 178⁵). In short, sociality, the tendency for the human being to form into groups or communities, is a factor that is universal (2) (in contrast to the exact setup of the human mind; Rakoff, 1977, 90; Ashley 1983, 477; Ruggie 1998, 857; Brito 2008, 54; Langley 2010, 73). Most theories attribute sociality to the presence of uncertainty, or even insecurity in the environment of the individual (Bates et al. 1998, 14). Housing and mortgages are domains among the many arenas in modern economic regimes characterised by uncertainty in the way that people cannot make sense of them in an easy and straightforward way.

From (1) it can be redefined that there is no predetermined guide for action, and not for the interpretation of the external world. In a universe of open possibilities with no given criteria of evaluation, the degree of uncertainty is maximal (Trope and Gaunt 2003, 191). On the one hand, the future is open; on the other hand it is this very indeterminacy that is hindering any initiative to act as all alternatives seem of the same value. An indeterminate mind is thus inclined to set up categories in order to structure the interpretation of the lived environment (Tajfel 2010). In other words, openness and closeness are the two sides of the same coin (Butler 2000, 23).

⁵ Even though the focus on ethnomethodology is not further developed throughout the thesis, it is mentioned here as it shows how a constructivist approaches brings up the questions that are dealt with in the thesis.

(...) understandings are largely determined by external social factors.

Consequently (...) “the actor’s own understanding is an area of underdetermination” (Yee 1996, 206, quotes Hollis and Smith(1991)).

Once the axiom of human indeterminacy is accepted, the properly constructive aspect of constructivist theory comes into play. Upon an open field of alternatives (1), an interactive and collective process takes place among social agents (2) that reduces the original uncertainty ((1) + (2)) into a more or less coherent interpretation of the lived world (Edkins and Pin-Fat 1999, 4).

Through ‘habitualization’ (Garfinkel 1974; Bourdieu 1994), the construction involves patterns of repetition, the setting up of agreed modes of interpretation that reduce the multiplicity of theoretically possible options to one that will then be followed, in the way people make sense of it and how they act. What is crucial here are the interactive features of the reduction of potential interpretations of the lived environment (Berger and Luckmann 1966, 70; Pusey 1987, 106; Soeffner 2004, 20). The argument picks up on this concept later on in this chapter when the relevance of the state is explained. As housing and mortgages go, everyday people interpret the corresponding markets in specific terms, the latter having the possibility of being different in separate socio-economic contexts. Consequently, people will act according to the premises of the theories that make sense to them (Bates et al. 1998, 13; Joas and Knöbl 2009, 123). However, that is not to mean that agents are denied creativity in the ways that they act upon the facilitated subjectivities. It is just that that is a topic that the thesis does not address in more detail.

For the moment, the process by which a certain interpretation ‘makes sense’ stands at the forefront. The notion captures explanations that are easily understandable, i.e. where the complexity of potential explanations is narrowed down (Bruner 1991). Collective narratives are established to offer a consistent set of statements about the nature of the lived environment and about the position of the individuals within (Suhr 2010, 29). What is constructed is a collective (2) story that is able to reduce uncertainty (1) by offering a causal model at which end sits the situation as experienced at present or a situation to be experienced in the future. The way that people see what is around them is thus not only dependent on the materiality of the latter but also on this process of validation of some modes of explanation and the exclusion of others (Brito 2008, 54). This is just what Vico meant with his “*verum esse ipsum factum*”. What people make of their own housing and their own housing finance management is then influential upon their behaviour in that very market.

This process is interactive as it involves at least two individuals or actors, without meaning that every agent has the same amount of power in the determination of the outcome. This is developed later on in this chapter and in subsequent part by introducing a constructivist account of institutional analysis. So now, constructivist theory often stresses how modes of explanations in the form of theories can take on a quasi-own existence in the form of institutions that then act as external forces upon the individual (Durkheim 1895). This is certainly a useful heuristic observation, but what I am mostly concerned with here is the individual level per se. Indeed, the concept of naïve theories (Heider 1958) points towards the sets of explanatory frameworks that people tell themselves or believe in as they reduce uncertainty. Naïve as they ‘de-complexify’ the situation faced by explaining it through a single,

causally coherent mechanism (Leiser 2001). That does not mean that they are logically coherent with the other naïve theories facilitated as is illustrated in the case studies. ‘De-complexification’ is the process by which the multiplicity of potential explanations is being narrowed down. Naïve stands hence in opposition to overly complex, and is not meant to have a pejorative undertone. In this sense, constructivism is always a theoretical perspective that points towards what has not been constructed, what interpretations have been side-lined (Soeffner 2004, 28).

In the process of adopting a certain set of naïve/everyday theories, moral judgements are formed about those that are right and those that are wrong. In other words, the closure of the openness posited by the human mind involves statements of the good and the bad, of morality. ‘Original violence’ (Laclau 1990, 34) is performed against alternative conceptions of good individual life (or in the case of this thesis: good housing and mortgage practices) and collective life (good macroeconomic house price trajectories and good mortgage conditions for instance). Stated bluntly, the modes of explanation chosen are qualified as good, and those conceptions of the experienced world that are not adopted are denominated as bad. Stated differently, a certain legitimation regime (Habermas 1976, 70) is put into place that defends one set of assumptions of how to look at/make sense of things and ignores the other ones (“housing is this, a mortgage is that, and nothing else”).

Legitimation is nothing else than the instalment of a structure of intersubjective meaning (Bieler 2001, 95), acting from the basis of naïve theories that promotes certain worldviews over others. Some scholars have even talked about “cognitive

legitimacy” in this respect (Suchman 1995; Jensen 2003, 524; Gordon et al. 2009, 16) to refer to the psychological bases of such a notion. In this sense, legitimation is the process by which individuals collectively agree with a certain interpretation of the material, or human, environment, and with the type of actions that consistently (in their eyes) follow from it. The concept of legitimation must thus be located at the individual level, i.e. in naïve theories. At the same time then, naïve theories are also at the basis of how people make sense of the general housing and mortgage conditions and their individual practices within them.

This should however not be interpreted as a theory that denies agential capacity to the individual. Indeed, individuals are assumed to possess artifice, “the capacity to respond imaginatively to social and natural conditions” (Germain 1996, 202) or human ‘fantasia’ (Alker 1990, 164). Even though certain interpretations of the world are predominant, that does not mean that all others are unable to be accessed through thought processes (Myers 2003, 27). As the subject is always a subject in the making, it can never be fully determinate. Contingency (Butler 2000, 31) and resistance (Lefèbvre 2002, 26; Streeck 2010a, 11) are inherent features in his/her constitution just as is the capacity to imagine alternative worlds. Human agency thus can always think of alternative ways of how to conceptualise housing, but it might be that people behave according to the predominant logic because that one makes more sense to them. The possibility of resistance however always exists. What I want to be clear about is that the thesis is not denying agents their capacity to run counter to the political assumptions about economic regimes, but this is not the main focus here. The open-ended ontology is concerned with the human mind and the ways that people make sense of the world, and that always means that ‘play’ between the

institutional level and the individual one exists (Streeck and Thelen 2005, 11), but before an analysis of such patterns can be assessed, the cultural process of civilisation needs to be investigated (Ferge 1999, 219), to use the words quotes in chapter one.

As shortly mentioned before, a theory is not only a description of how things are, its judgements about good and bad also constitute a prescription of how things should be, hence they function as guides to action (Lukes 1974; Cox 1981, 128). Based on moral conceptions, the constructed conceptions promote certain types of behaviour, those that are consistent with the explanation at hand. In other terms, naïve theories not only interpret the world, they also construct it in material terms in a way so as to fit the theory (MacKenzie 2006). The normative aspects of societal conceptions of good life are hence larger than could be expected. Constructivism is not only about the interpretation of reality, it is also about the (re)production of it, about everyday practice (Soeffner 2004, 23), hence about the definition of economic agency that is political in itself (Bourdieu 2000, 15). To come back to the individual, even though certain worldviews get naturalised (Berger and Luckmann 1966, 77) through sets of more or less consistent ideas, there is always the potentiality of internal contradictions in a symbolic order (Germain 2007, 128) that never fully changes the condition of indeterminacy of the mind. The empirical cases also highlight these internal frictions.

This chapter introduces ‘axio-rationality’ (Hobson and Seabrooke 2007, 17; Seabrooke 2007, 403) as a method of challenging a naturalist view of things that

considers people as interpreting economic affairs according to one particular logic (Hay 2002, 8). But before going over to the discussion of economic rationality, it is important to highlight the political character of constructed naïve theories. Indeed, when a collectivity is formed through the elimination of potential conceptions of the world, the constitution of a community is inevitably political as it excludes alternatives. ‘Original violence’ is inevitably performed in the very act of setting up this very community (Butler 2000, 29-31). The act of closing down potential spaces of thought is a political manoeuvre as it attempts to cut off potential avenues, even if they are only conceptual. But because interpretation of the world also creates it in its own image, the exclusion of certain reflections and conceptions must be considered here. In other words, the moral constitution of a set of subjectivities itself leads to particular distributional outcomes. As different worldviews come with different normative baggage (Strange 1994, 1-6), they not only favour certain groups over others, but favour them differently according to the underlying moral assumptions. This is hence an example of how ideas shape policy (Clift 2012), a topic that is theoretically explored in chapter four and showcased throughout the case studies (chapters five to eight, and annexes). Every conception of how things are and should be hence plays into the hands of some people and not of others. This then links what I call the ontological and the distributional elements of the political features of comparative capitalisms.

The exclusionary effect is thus double, once at the conceptual/ontological level, once at the material/distributional level. Hence the very process of setting up a community is a political act. Indeed, it means that conceptions of what housing and mortgages are, and who they are for, create a common set of shared assumptions, but at the

same time exclude others (violence at the conceptual, theoretical, ontological level). Moreover, by putting forward a certain interpretation of what housing is, who is entitled to which tenure and who is entitled to a mortgage that enables him/her into a certain type of housing, every conception of housing favours some behaviour and socio-economic groups and marginalises others (violence at the material, practical, distributional level). At the same time then, these markets are hence likely to be sites of potential contradictions, in conceptual and practical terms, as they try to cover up their political character. Again, that is to be seen in the empirical chapters.

To finish off this section, this approach also points towards the ambiguity of the political character of collective life. On the one hand, the arrangement of a certain mode of social and economic organisation around commonly shared moral principles and patterns of interpretations are the necessary condition, if not the essence, of a political community. In other words, it is inclusionary as it forms a community out of individuals. On the other hand, it is this very action that draws internal lines between certain groupings of its members, through the marginalisation of alternative conceptions of good life. It is this dual characteristic that is essential in the concept of the 'political' as is demonstrated in the case studies. To put it in a concise way, the initial openness of the mind posits the exclusion of alternative potential moral conceptions of good life in order to make sense of the lived environment and to hence form a community. In order for a collectivity to acquire an internal identity, it distinguishes itself from what it is not (Bourdieu 1979; Myers 2003, 41; Lefèbvre 1991, 169). In relation to the empirical cases, housing and mortgages markets can thus be understood as "some thing" and not as something else. The empirical investigations bring out how some conceptions are legitimated and what arguments

are set forward to de-legitimate others. Simultaneously, it also entails efforts in the form of specific state policies what ideal-typical individual the good homeowner and mortgager are supposed to be.

3 Axio-Rationality: Means and Ends

Now that the previous section has outlined how naïve theories act as tools that reduce uncertainty (Béland 2008, 148) and bring out the political through the narrowing of windows of conceptualisations, the argument looks at the implications for the notion of economic agency. The question that is to be answered here is how naïve theories revisit the concept of unique rationality that does not allow for variation. Indeed, rationality is often taken to mean the selection of the optimal means to an end, with there existing only one perfect solution (Zafirovski 1999). Additionally, it is also an issue of how they can inform an additionally political view of housing and mortgage markets, and more generally of economic regimes. The discussion about an alternative ontology above is being built upon to demonstrate the contingency of rational thought and action. Such a move follows logically from an ontology that places the production of specific legitimization regimes under particular social conditions in its centre.

The indeterminate mind and the process that leads from the potentially many conceptions of the good individual to one relatively (temporarily) uncontested moral worldview are taken as points of departure to show how economic agency is necessarily embedded into a context of moral judgements about the ends of human

activity (Seabrooke 2007, 404-5). This is no different in housing and mortgage markets. I claim thus that the multiplicity of normative environments logically entails the possibility of varieties of rationalities, and subsequently possibilities of varieties of facilitated conceptions of agency in relation to housing/mortgage markets. This section helps shift the focus away from the firm towards the individual in order to discover an additional layer of the political in varieties of capitalist forms of economic organisations. Indeed, it sets out a review of the concept of human rationality and argues that while the traditional rational choice perspective, as exemplified in VoC with firms only reacting to external incentives (Hall and Soskice 2001; Hay 2005; Hancké et al. 2007, 7), is worthwhile starting from, it does not engage in a discussion about the limits of its domain of applicability because it sees itself as self-sufficient, or universally true. Rationality as a calculated method to maximise utility is a valuable heuristic tool, but only in clearly delimited cases where the wider social context is insignificant to the researcher.

In order to go beyond those boundaries, the more general notion of axio-rationality, built upon the Weberian concept of axiological rationality (Boudon 2001, 93), offers a more refined understanding as it puts economic rationality into a domain of moral values. Of course, in their own eyes, people behave rationally in the housing/mortgage market when they take decisions about the renting, purchasing, moving and about which loan to take out. That is only to say that people act according to what they think is right, a statement that has been made here already. The question must be put into a larger context in order to explain market behaviour in a more complex way, in a way that explains how and why people conceive of a

certain type of rightfulness in the first place. This section then follows very much the constructivist method operationalised in the first section.

Textbook rationality is defined as a mode of action that tries to maximise the utility that an actor retrieves from his activity and decisions (Frank 2002, 82 and 97; Blyth 2003, 696). A classical example is the way a person can make sure he/she attains the highest level of satisfaction from buying apples and pears, in a context of fixed prices, fixed resources (Frank 2002, 63; Besanko and Braeutigam 2011, 106) and fixed preferences, *ceteris paribus* (Hey 2003, 73). Utility curves (Besanko and Braeutigam 2011, 84) derived from preferences and the income line hint at the one optimal combination of apples and pears to buy. In other words, rationality and the models developed around it answer the question of *how*? How can I get maximal satisfaction in a certain situation, assumed the parameters are given? The question is an allocative or distributive one. What is at stake are the means of achieving a certain target, it is about the way to achieve something very specific: maximising utility/minimising dissatisfaction.

In a case where the parameters are externalised and given (Yee 1997, 1010), rational choice theory is applicable and acts as a technical tool. Examples here include a game of chess where rules are predefined and do not change over the course of action (Fierke and Nicholson 2001, 20). The aim is fixed (win the game), the rules are fixed (those written in the chess handbook) and preferences are fixed (each player wants to win the game). Observe that all those parameters are externalised, hence are not influenced by the progress of the game per se. Rational choice theory is able to offer

answers to questions internal to the set of rules, in this case in relation to how to move the pieces to win the game, hence pragmatic issues. The technicality of rational choice derives from its externalisation of parameters that would otherwise need to be handled in relation to a social and moral i.e. moral/metaphysical context. Or as it has been put, it is “an approach that assumes away most of the complexity of political actors” (Olson 2001, 191).

As rational choice leaves these questions to other disciplines with its methodology (methodological individualism) not attempting to answer them, its conception of rationality is instrumental (O’Hagan 2001, 58). It is possible to predict the optimal choice of housing if the preference of the person in question and the offer of houses are known. Hence rational choice scholars are not concerned with moral elements, they take them as externally given and stable, hence unworthy of analysis (Satz and Ferejohn 1994, 74). The analysis is valuable, but only in a context where this assumption is valid. If the aim is to look into the meanings of housing and mortgages over time, such an approach however becomes less useful.

It is also in this sense that rational choice it is a toolkit under the conditions that the analytical limits are acknowledged (Watson 2007, 1). Scholars that see rationality as a concept to be valuable under all conditions of investigation do however not always recognize the latter (Levitt and Dubner 2005). Just like a hammer is a tool to drive in nails, rational choice is a tool to maximise utility (in the eyes of the analyst and the individual person). The question of *why?* is not dealt with in either case. To exemplify this I go back to the chess game once more. There may be reasons for making specific moves, so the *why?* is not entirely excluded at first sight, but it only

relates to the internal rule setting, and could be reframed into a *how?* question. “Why do I move the tower by two positions to the right?” would typically be answered by “because that way you will shield off your queen and win the game!”, so the actual question is: “How do I need to move the tower in order to shield off my queen, as doing the latter will minimise my dissatisfaction, hence allow me to win the game?”

The rational answer is always subject to the overarching aim that is to minimise losing one’s own pieces and to maximise stealing one’s opponent’s pieces. Concerns of the *external why* are taboo, like “Why are we playing this game now? What is good in us playing this game here?”. Meta-technical issues cannot be discussed because the rational choice model relies on those parameters to be fixed, hence externally given. Inside such a tightly held model, it is theoretically easy to account for rational behaviour, as one can always posit new aims that make actions appear rational. In this sense, it has been claimed that

much of what is ordinarily described as non-rational or irrational is merely so because the observers have not discovered the point of view of the actor (Coleman 1990, 18 quoted in Abell 2003, 255-6)

If such an approach is taken, the whole approach runs into the danger of becoming tautological, of explaining everything an nothing at the same time. Finally, the limits of the domain of applicability of this approach (Bates 1998, 23) are related to two conditions, given preferences fixed in time and given aims fixed in time. In this context, the theory is able to come to one and only one optimising conclusion (Nash 1950). Looking back at the notions of indeterminacy of the mind and of uncertainty, such an approach to rationality constitutes a limited heuristic tool.

I have stated that the human mind cannot be seen as imposing a single path on how to make sense of the everyday environment, hence potentially leading to varieties of behavioural patterns. The moral and political judgements that are necessary to form a community can differ. The latter answer the question of *why?* as they provide a sense for which ends are good and which are bad. “Objective rationality” as described above must thus be complemented with “subjective rationality” (Boudon 1989, 173). The concept integrates the conceptions of actors themselves. People act because they follow what are in their eyes “good reasons” (Boudon 1989, 174). And even if Boudon rejects that such a conception contains elements of morality (Boudon 1989, 177), this is exactly the claim that I put forward. What a morally defensible aim, hence a good reason or end, involves a contest over different conceptions of good life, just as presented in the previous section (Dryzek 2000, 74). It involves processes of exclusion as violence is performed against some conceptions of what is ethical and what not. In other words, it is the aims of the community that are reflected in certain naïve theories. In this sense, rationalities mirror specific subjectivities, specific conceptions of the world that come with a specific understanding that promotes certain sets of action over others. In short, rationality, or better axio-rationality is political. The question to be asked in the empirical chapters is thus not whether people are rational, i.e. optimising agents, but what they are trying to optimise, hence what moral/political aim is depicted to be worthwhile trying to archive. At the same time, this plays into the question of which ‘collective man’ is depicted in a particular individual-state relationship.

It is only once that the moral ends are agreed upon that the technical issues of how to get there (aims) are posed, and where rational choice can come in. Contrary to textbook rationality, this approach starts from the indeterminate mind that posits open-ended preferences and aims, both being concepts of the moral domain. Preferences are judgements about what is good and bad behaviour or ‘taste’ (Bourdieu 1979) or ‘manners’ (Smith 1759⁶) at the individual level, ends are moral convictions about desirable collective outcomes (Screpanti 1998, 67). None of those can be explained by rational choice approaches, they can only be understood with reference to a wider body of morality (Watson 2005b). Consequently, it is necessary to integrate the wider social issues that prescribe ends, that answer the *why?* questions. The following set of questions arises: what are the overarching ends and values of a certain community, and how do they come about?

The concept of axio-rationality is a step towards corresponding answers, as it embeds ‘rationality’ i.e. a particular technical procedure of maximisation (cf. the chess game), into a context of the moral i.e. naïve theories that make sense of the world (Campbell 1987, 25). As such, it points towards the contingency of ‘rationality’, towards its embeddedness (Granovetter 1985) into a moral and political order of ends. This applies to whole economic regimes as well as to housing/mortgage markets in particular. Textbook rationality cannot be seen as sufficient an explanation when it comes to societal questions as it delimits itself from the social world through an externalisation of parameters of moral ends. The really interesting question is hence not if people are rational or not but what the overarching reason, or end, for their

⁶ Boudon considers Adam Smith to have applied the concept of axio-rationality (Boudon 2002, 24-5).

behaviour is. The latter can be found in naïve/everyday theories about the economic phenomena analysed, in this thesis definitions of economic agency in housing and mortgage markets.

Indeed, axio-rationality turns towards the social conditions of economic action (*axio-bit*), so that economic textbook rationality is only one possible ‘rationality’ among others (Hamdouch 2005, 245). I hence extend the concept without denying the heuristic usefulness of rational choice theory (Grafstein 1997), under the specific conditions stated above. Axiology, a term that means the philosophical study of value and that comprises ethics and aesthetics as studies of the ‘good’ and the ‘bad’ (Hart 1971, 29), is used here to describe the moral context of human activity. As the indeterminacy of the mind looks for specific conceptions of morality or ethics, the notion of axio-rationality takes up just those and integrates human activity into a social (see ‘sociality’ as developed in section two) and moral context (Jacobsen 2003, 43). Whereas rational choice rationality takes this environment as fixed and hence reduces its field of operationability, axio-rationality is open to a discussion of ends and morals that inform individual preferences and collective aims (Jupille 2003, 13).

Such a conceptualisation matches with the constructivist departure as it introduces contingency and the possibility for multiple rationalities, an element that is used in the thesis to enlarge the notion of ‘varieties of capitalism’ with the notion of micro-macro complementarities. Instead of dropping institutional differences upon firms (Hall and Soskice 2001, 9), this approach opens up the possibility of differences in constructed worldviews, might this be in housing/mortgage markets or any other

economic domain, and uses these to connect to differences in institutional design and policy outcomes (in chapter four). Models of capitalism are hence partly “choices of societies” (Lorenzi 2008, 71). Hence, once the thesis moves on to the empirical cases, it does so with an eye to the wider social structures and understandings of housing and mortgage markets. Depending on which moral principles are seen to be most valued in a community, individuals try to maximise different objectives. The notion of axio-rationality caters for this as it includes the topic of meta-technical ends into human agency. The empirical chapters thus investigate the most salient ends for homeowners and mortgagers.

Apart from failing to acknowledge the social dimensions of behaviour, a unique concept of rationality depoliticises the study of economic regimes by stating that a de-socialisation approach accurately describes social realities (Burham 2001). Again a look back at classical economists gives a much more careful account as they have performed this move to separate the domain of morality from the study of economics in a conscious attempt (Watson 2007). This is especially relevant as the concept of economic rationality is often depicted as offering a complete explanation of economic processes per se (Rule 1992; Zafirovski 2000, 168). Such claims then extend the claim of technicality and value-freeness over the moral environment in which it takes place, thus implicitly denying its relevance and political character (Bourdieu 2000, 16; Burnham 2001). If placed in the context of housing/mortgage markets, it is not difficult to see how certain conceptions could be naturalised as they could foster the reproduction of certain macro-economic regimes through the legitimisation of specific types of economic agency (Gurney 1999b; Beckert 2010).

These links are theoretically explored in chapter four and then applied in the subsequent pages.

To sum up, the contingent character of axio-rationality posits various things. First it enables variants in rational behaviour, the concept of rationality being one that is influenced by the ideational sphere (Blyth 2002, 10). Second, contingency also means that the sense-making environment constructed in time and space, and represented in naïve theories, can lead to a change in the precise meaning that rational action takes on. Naïve theories can change over time, because they are constructed and because agents possess the capacity to imagine alternative futures. There is thus a more or less implicit struggle over the conceptualisation of good life (Martin 2002, 17). It is in this sense that some institutions might be able to exercise power over the moral bases of a community (axiology) and influence the mode of interpretation and action of individuals (axio-rationality). This possibility is explored in the following section.

Finally, it becomes obvious that rational choice theory is blind towards the wider context of economic agency and that by stating that it is applicable to the study of whole economic regimes it implicitly depoliticises it. Indeed, the VoC depiction of the economic systems analysed tends to avoid the notion of power (Hancké et al. 2007, 8). In contrast, a constructivist perspective that blends in with an ontology that enables for varieties of the evaluation of various moral principles (Cisar 2003, 11) provides the notion of axio-rationality that still allows for textbook rationality but that is better positioned to take into consideration the social and moral conditions of

human agency. The possibility of varieties of capitalism and housing/mortgage markets can be traced back to the possibility of varieties of conceptions of good life, opened up by constructivist strands of reflection. Moreover, it introduces additional elements of the political into the equation by pointing towards exclusion.

In the next section the argument goes further in explaining how this degree of indeterminacy, combined with sociality, invites state facilitation upon axio-rational behaviour. As stated beforehand, the openness of the mind is closed through a process of privileging a certain understanding of good life and marginalising others. Once this is a contingent process, state interventions play a role in this regard. As policy-makers have interests in housing and mortgage markets because they are fundamental institutions of modern capitalism and as they relate to the individual, it is interesting to see how and why the British and German rationales for state intervention played out in relation to the definition of economic agency.

4 The State as a Facilitator of Moral Economic Guidelines

Once the introduction of axio-rationality has described the possibility of variations in rationality through setting economic agency into a wider political and social context, the attention of the argument turns towards the state. As a central and recognized institution in most developed economies it is acting in the field of economic axiology (Bell and Hindmoor 2009) i.e. the facilitation of moral values related to the economy, through its policy making and accompanying discourse, the state plays a crucial role in the contingency of axio-rationality (Liebermann et al. 1995, 438). Here state

policies are most important, but also the constitutive nature of the state as an institution. However this aspect is further studied in the subsequent chapter. As has been considered in the literature review chapter, current contributions to the field of comparative capitalism either side-line the state due to their productionist focus or integrate the state per se without relating such a move back to ontologically prior elements. As such, they do not explore the individual-state relationship and hence not the facilitation efforts that state policies can have on what counts as proper economic agency, in consumer markets like housing and mortgage markets for instance. As highlighted, such an approach addresses the realm of the moral and political, as it raises the question of the ends of social action and thus of the very definition of economic agency.

With the detour of a discussion of ontological concepts about the individual and the outlining of how a certain mode of maximisation is inevitably embedded into a field of moral conceptions about good and bad, the thesis integrates state concerns in a way that brings additional features of the political into the study of capitalist forms of economic organisation. These characteristics go beyond the distributional elements showcased in the literature review. If the human mind is indeterminate and that people look for moral guidance (*which ends/why?*) in the social world, then it is logical to suggest that state policies play a role in setting the agenda for potentially legitimated codes of conduct. Streeck has been talking about the “rule-maker” and “rule-taker” in this context where state policy produces sets of interpretation for economic phenomena but where their enactment is always open to contestation (Streeck 2010a, 12; also Streeck and Thelen 2005, 11 and 13).

Another way into this is by looking at the state culture and the beliefs of policy-makers about the morality of policies (Jensen 2003, 527), especially those that concern the social and political management of economic matters, housing and mortgage markets for instance. Indeed, in the current era, one of the main functions of the state is the management of the economy (Thompson 2001, 597) and hence also of the exact moral definition economic agency. On the one hand, this can be more or less self-proclaimed through state channels⁷. The exact way in which this is done depends on the interactive and discursive (Becker 2010, 254) individual-state relationship that is introduced in this section and developed in fuller details in the next chapter. What is important to outline here is how exactly the state comes into the study of economic regimes once a constructivist ontology is adopted. Or as it has been put, why “(T)he state is now built upon daily life; its base is the everyday” (Lefèbvre 2005, 123).

Naïve theories are the basis of action for individuals as they provide the individual with a consistent account of the *why?* of his/her behaviour. It is only once the ends have been accepted through a particular legitimisation regime, that technical maximisation concerns come in. The sociality of the human mind looks for hints of moral guidance outside itself, hence in its human and institutionalised environment. It is here where institutions come in as contextual constellations in space and time (Laville 2003, 190; Damart and Roy 2005, 21; Freeman 2007, 21). Indeed, this guidance can be procured through state channels, hence through a (more or less) coherent rationale for state intervention. Unlike firms, the state is a player in the economy that directly relates to the mass of the population and hence establishes a

⁷ I do not refer to the communication channels between state actors and the general public only here, but also those internal to the state as an institution.

more or less direct relationship with the general public (Steffek 2003, 250). The state not only legislates over the economic activities on the national territory, such action also sets out normative judgements about the ends of individual economic agency, or about the “good reasons” (Boudon 1989, 174) of economic behaviour. In democratic settings, the state is meant to represent the population and guard them against potential dangers. This is exactly what the term ‘management’ of the economy, by the state, is meant to imply in relation to the thesis argument (Hall 1986).

Because of this conception, that is itself contestable, the state as an institution is looked upon as the public provider of sense that filters through into naïve theories. As such the individual expects state policies to give hints about what constitutes appropriate and legitimate economic behaviour (Seabrooke 2010). Because the state is such a highly institutionalised actor and is regarded as the overseer of the economy, individuals turn to the state for moral guidance (Becker 2010, 256). A consequence is that all state activity is value-laden, just because the individual understands it as facilitating moral direction on economic behaviour (Soeffner 2004, 35). It prescribes moral and political messages by narrowing the domain of the conceptually possible (Langley 2008; Watson 2008a). However, this also means that what is central here are not merely the utterances that state officials proclaim in official speeches, but the deeper understandings of the ways that policies are set up. In methodological terms, this entails a focus not so much on what Schmidt calls ‘communicative discourse’, but on ‘coordinative discourse’ (Schmidt 2005), on the discussions that policy-makers have between each other in relation to a particular rationale for state intervention. Indeed, it is here that the interpretation of the moral ends related to economic issues plays out.

As stated, state interventions and statements inevitably carry political weight. Even if legislation might be technical, it comes with connotations of good and bad. This is an element to analyse when it comes to observe the ways in which the economic agent was depicted (in parliamentary debates) in relation to housing and mortgage markets. State policies are understood as promoting desirable (i.e. good) conceptions and as rectifying deviant (i.e. bad) behaviour. The material nature of state interventions is interpreted as carrying moral weight because, as an institution, the state is understood as the moral/political leading actor. The ways that state aid is allocated when it comes to housing for instance puts forward certain propositions about who deserves support, which behaviour is needed in order to be a successful mortgagee, and what ends a home owner should pursue. When it comes to economic matters then, households are confronted with policies that more or less directly influence their financial situation in the form of taxes, allowances and various regulations in all of the existing markets. As such, the outcomes of state legislation acts as guidance for how the ideal-typical consumer is to behave.

Now that individuals look to the state for moral guidance as far as economic practices go, it becomes apparent that the latter has influence over their conceptualisation of everyday life in relation to economic matters and of the latter themselves. However, that does not mean that individuals blindly follow the behaviour the state prescribes through moral depictions of good and bad, also as those prescriptions are very likely to feature internal contradictions (Germain 2007, 128). Even though its institutional status is rarely put into question, state interventions need to be legitimated in one way or another. This process can happen

through discourse towards the broad public (Chadwick 2000, 289) but does not need to operate through in this way as the next chapter highlights. What is important for the moment is how all state action relates to the depiction of an adequate model of ideal-typical economic subject in relation to end that is not explicitly discussed as it is taken for granted (Eriksen and Fossum 2004, 436). What exactly is to be legitimated are two different but interconnected things: first the institutional order, hence the state as an institution, and second the state interventions themselves.

As far as the institutional setup is concerned, this can only be answered by an investigation into national state developments and understandings of the state and its role. The thesis takes institutional settings as historically constructed and transferred in the *longue durée* (Braudel 1980, 27). The reproduction of institutions is then always subject to change and reinterpretation, even if historically transmitted conceptions can only change slowly (Steinmo 2008). However, at a certain point the everyday person and the scholar can understand the institutional setup in a specific way. It is this very way by which a certain structure is interpreted and hence legitimised. But because of its constructed character, such a regime can only be understood in relation to the naïve theories that the individual as well as policy-makers hold about those structures. Indeed, institutions always mirror moral understandings of collective organisation at a certain time in the past that have then been institutionalised and transformed to variable degrees (Scharpf 2009). The state as an institution hence derives its legitimacy not only from current policies but also from historical processes because of the temporal dependence between legitimization regimes (Berger and Luckmann 1966, 77).

As regards the legitimation of the form and content of the policies enacted, the institution of the state enters into a more or less formal relationship with the individual through state policies. The aim is to gain the legitimacy from the wider public for its interventions (Schäfer 2006). The exact way by which policies are legitimated depends on the setup of the individual-state relationship but in either case, state action inevitably acts upon the axio-rationality inside an existing setting. In this sense, the legitimation of policies occurs if the current naïve theories are able to integrate the arguments of the incoming/new state interventions in a way to keep the body of justificatory theories consistent, i.e. if the new elements can fit with the existing ones to produce a modified naïve theory (Sikkink 1991, 2; Zelditch 2001, 9). In other words, for the individual the new policy needs to make sense, in relation to his previous conceptions and his lived experience of the issue that the intervention targets. It needs to match with a certain mental model of how the world works (Abell 2003, 268), for instance with existing conceptions of housing or the mortgage sector. However, this process also depends on the assumptions held about the role of the state as an institution i.e. the institutional setup. In other words, the legitimation of the state as an institution and as a set of policies are linked together. But before digging deeper into institutional arrangements of states and the consequences for policies and state-individual relationships in the next chapter, I would like to outline the aspects of the political of the framework set out so far.

Traditionally, politics is defined as all the concerns related to the distribution of power, or with the question of “who gets what, when, and how?” (Lasswell 1936). This is also the case for much of the VoC literature and its critics as has been outlined in the previous chapter. I argue that the integration of a constructivist

ontology of the individual extends the concept towards a level of analysis that has often been neglected so far (Schmidt 2005; Hay 2006). Normally, comparative political economists conceive of a group of actors that compete over the interpretation of a particular problem, with the power being distributed in a more or less unequal way. This leads to an outcome that represents the interests of some factions better than those of others. The thesis goes beyond this definition of politics in distributional terms as it claims that the elements of such debates involve assumptions about moral values about what policy-makers are to achieve that are biasing the debates. In other words, there may be elements that are not debated as they are taken for granted (Lukes 1974; Hay 1997; Hussein and Le Galès 2010). The institutional setup is hence not neutral, but ontologically constitutes a political domain as it does violence to certain state policies, just as naïve theories do violence to other conceptions of good economic agency. As such, just as naïve theories are necessarily political by setup, all state interventions are political as they promote some axio-rationalities over others. The political hence plays at both, the ontological, theoretical and the policy, distributional level. The state as an institution as well as state policies are thus political.

Following from the concepts of naïve theories and axio-rationality, this section has tried to unpack why and how the state matters as a political actor. Political is understood as having influence over the very way individual agents make sense of their economic environment and their own behaviour within it. In other words, what is at stake is the exact definition of economic agency, the type of axio-rationality, and its integration into market structures. The question that is raised here is about the what that people are trying to maximise, not that they are attempting to put

themselves in a comparatively ‘better’ position in their eyes. The determination of the ‘better’ is what comes into the focus of the argument here. What is it that economic activity should lead the individual to? It becomes obvious that this is question that is not to be answered by economic theory but by philosophy (Watson 2005b). And as such, the thesis is back to Gramsci’s statement that all men are philosophers. As state policies in the form of a coherent rationale for state intervention set forth certain conceptions of how to make sense of the ‘collective man’ and of markets, state interventions are inevitably political in the sense that they promote certain subjectivities of morality over others. This shows that once the individual is fully brought into focus, the political needs to be located in the very naïve theories that he/she holds about the world, and not only in the strategies of policy-makers or distributional issues following from both.

5 Conclusion

This chapter is the first one of two to outline the theoretical framework that is subsequently operationalised in the case studies. As such it has started to picture the kind of perspective that is characteristic of the thesis. In the attempt to set forward an alternative rationale for a differently political account of capitalist diversity, it has centred upon a constructivist approach and the notion of the indeterminate mind. An ontology of the individual has been developed that opens the possibility of human rationality to take on various forms. By exposing how the mind is malleable towards various interpretations of the lived environment, the latter displayed its deeply social characteristics. This outline has hence drawn attention to the importance and contingency of the moral context to human behaviour. The chapter has introduced

the concept of axio-rationality that integrates moral considerations of ends. The notion still leaves space for the economics textbook conception of rationality and links behaviour to wider societal considerations. It thus adds an additional aspect of the political notion of human activity into the comparative capitalisms literature by providing it potentially various understanding of the individual (Screpanti 1998).

Once the mind can accommodate diverse naïve theories of the inhabited world, the historically constructed institution of the state comes into the framework as an institution but also as a body of policies that acts upon the axiological meaning of understandings and practice as regard economic phenomena. The political elements of economic regimes are hence inherent in state interventions upon individual subjectivities. In other words, the malleable character of the mind can accommodate various conceptions of good life, the latter being acted upon by state facilitations. Such a perspective complements the accounts of the comparative capitalisms literature by reassessing the role of the individual and of the concrete individual-state relationships that entail the legitimation and reproduction of economic orders. This can be captured by the concept of micro-macro complementarities. Indeed, the naïve theories promoted need to make sense with the accepted meanings of wider characteristics of the economic regime at hand and upon which the latter is based. This is also the reason why both housing and mortgage markets cannot be studied on their own, but are investigated in relation to debates to broader economic issues, like the questions of how markets operate or how savings relate to efforts to acquire a own home. Consequently, this chapter offers the basis to carve out the different political characteristics of economic regimes, at the ontological and distributional level, as regards the individual and the state (as institution and as a set of policies).

In the next chapter, I go beyond a introduction of the significance of the state and look into varieties of state conceptualisations, in the eyes of policy-makers and policy-takers alike. Not only are state policies facilitators of moral guidance as far as economic behaviour goes, their action upon axio-rationalities varies according to the concrete individual-state conception at hand. Through a categorisation of different forms of these interactions, the political aspects of institutional state setups are explored in more detail.

Chapter 4: Which individual-state relationship? The Politics of Politics

1 Introduction

The literature review chapter has revisited the comparative capitalism literature and pointed to three main criticisms: its lack of engagement with the constitutive features of the individual, its incomplete notion of the political as relating to distributional issues only, and its lack of concerns with consumption issues. Centrally, it has been argued that the current approaches to varieties of capitalist regimes are characterised by a superficial depiction of their inherent political elements, this being related to their limited treatment of the individual, especially in relation to the state. Whereas various strategies have been put forward to achieve a more complex description of the political elements of comparative capitalisms, the chapter has argued that such accounts intent to bring the state, and hence politics back in, without investigating the deeper causal mechanisms that render the state an appropriate unit of analysis. Chapters three and four follow this logic and present subsequent arguments for how a more complex framework that focuses upon the concrete individual-state relationships can provide an account of capitalist variety that is able to add a layer of the political to the study.

As such, the previous chapter has started to introduce an open-ended ontology that lays the bases for an alternative viewpoint on individuals and the context in which they act in relation to the state. Such a proposition is favoured as it locates the constitutive sources of differences in capitalist organisation within the naïve theories held by the individual, not merely in institutional variations as the current literature tends to suggest. The concept of axio-rationality has been developed in order to provide a framework that distinguishes between the technical means and the morally

loaded ends of economic agency (Boudon 2002, see also Habermas 1970, 64), and hence allows for variety in the ways that the individual makes sense of economic phenomena, housing and mortgage markets being relevant examples in this regard. The notion of 'naïve theories' points towards the moral assumptions that people hold of their own behaviour in certain economic markets, and upon which they rely as guides for action of what end to achieve.

The debate has then turned towards institutions that can potentially influence the moral ends that guide agency. It has been explained why the state can be seen as an institutionalised source of behavioural guidance and hence facilitation of naïve theories. As people construct their worldviews and actions on the basis of moral doctrines and that state policies take action upon the normative environment into which individual economic rationality is embedded, the latter has influence how humans conceive of the moral ends of economic activity. For the case studies on housing for instance, the question then becomes which conceptions of the house and of this market have been put forward in a particular rationale for state intervention and state legislation. As such, state interventions are inevitably political as they come with moral claims about proper patterns of behaviour.

Indeed, policies and legislations set out a certain conception of how to interpret the housing market, hence they facilitate specific understandings of the individual as an economic agent. With state policies legislating in those markets, it also depicts some practices as more legitimate than others, hence making normative statements about good and bad, proper and improper ends. The latter must be seen as deeply political,

but also as offering variation between economic regimes. Capitalist diversity is then not limited to institutional features but also includes specific definitions of economic agency. In other words, what housing and mortgages are, how people are supposed to use them and for what ends, these are questions that the empirical chapters attempt to answer in relation to particular state policies. This can happen more or less explicitly as becomes clear in the next pages. The cases of housing and mortgages then seem relevant for this type of analysis as they are locations where state interventions, moral claims and everyday economic agency come together.

Once it has been explained why the state matters relative to ‘daily life’ (Lefèbvre 2005, 123), the question of how it matters arises, what the exact mechanisms are by which a rationale for state intervention is significant in relation to the naïve theories and axio-rationalities pointed out previously. These are the questions that this chapter turns towards. Indeed, in order to fully grasp the nature of individual-state relationship, the argument looks into institutional features of the state (the state as institution/polity (1)) and its interactive relationship with the wider public (state as a body of policies (2)). As outlined before, this distinction is heuristic, meaning that it offers insights into how states operate, but that is not to say that the two sides of the state are ontologically separate. Actually, this chapter claims that once the rationale of individual-state relationship has been outlined, the focus can switch to the institutional design of states. However, against the tendency of the current literatures, this chapter highlights the institutional features not of the state per se, but of the individual-state relationship. As shortly described in the previous chapter, the reason is that the institutional features of the individual-state relationship influence the content of state policies.

Not only are there potentially different modes of interpretation of economic agency, but there are also different arrangements according to which state intervention take place. Indeed, I claim that the state policies depict the position of the state as an institution with relation to the economic system in various manners, hence introducing variety into the structure, or form, of the individual-state relationship. The variation originates from the way in which the state functions, first internally and second in relation to the general public, hence the individual (Schmidt 2006a, 248), and how policy-makers themselves make sense of their role. Both of these factors fall into the larger domain of how regimes and policy programmes are legitimated, in relation to policy-makers and policy-takers (Streeck 2010a, 12). If the state policies facilitate moral assumptions in relation to economic phenomena, the way in which policy-makers and the public perceive this ability plays a role in how state interventions actually look. In other words, the concept of individual-state relationship is itself a constructed one, once that state policies help foster. What the proper relationship between the individual and state is hence becomes an issue of legitimation, relating back to the legitimation of the polity as presented at the end of the previous chapter.

The thesis then argues that historically constructed and transmitted structural differences in institutional settings and individual-state relationships (i.e. their form) are political in themselves as they induce diverse policy settings and focal points (i.e. their content). In other words, the institutional features of individual-state relationships themselves narrow the windows of opportunity for which naïve theories can be regarded as acceptable and can then be legitimised (Surel 2000). Indeed, just

as legitimisation efforts are targeted at both the policies themselves (content) and at their institutional features (form), the political plays out on two domains, on the policy level and on the polity level (Schmidt 2008c, 303). What is investigated then is the theoretical possibility for differential individual-state relationships and the exact differences in legitimisation regimes and individual-state relationships. The empirical chapters five to eight (and the annexes) are showcases and offer differential readings in this regard. The distinctive legitimisation processes are tracked back in the cases of the British and German housing and mortgage markets, their political characteristics are highlighted on the two levels: the policies that have been enacted relating to housing and mortgaging behaviour (policy level), and the structural windows of opportunities that policy-makers and the general public internalised at a certain point in time when confronted with policy initiatives (polity level).

Because this interconnection is central, the method to investigate the cases selected is focussing onto the ‘background ideational abilities’ much more than on the ‘foreground discursive abilities’ (Schmidt 2008a, 303). Indeed, what is important in relation to an understanding of the political in politics and differential individual-state relationship is that they are entailed by the narrowing down of a whole variety of potential policy interventions onto a limited number. Hence, again the political is located in the act of doing violence to an originally much larger position. This is the crucial contribution of this chapter to the larger arguments about highlighting different political features of comparative capitalisms.

As the references show, this chapter borrows from the recent developments in the institutional literature (Schmidt 2006b) that has seen the emergence of a so-called forth institutionalism coming under the names of ‘discursive institutionalism’ (Schmidt 2005) or ‘constructivist institutionalism’ (Hay 2006). Such an approach matches with the view expressed here that institutions are historical contexts into which particular understandings of economic axio-rationality is embedded (Watson 2012). This literature is tapped into to demonstrate how individuals relate to the wider social/institutional environment that provides sense to their economic activities. In other words, it presents elements of reflection that have been argued for in the chapters before already. I indeed, the focus on the interactive and differential relation between the state and the wider public fit with my perspective into economic regimes (Blyth 2004, 622). The inclusion of the ideational domain is also welcomed in this regards (Schmidt 2008a; Clift 2012). At the same time however, the chapter also criticises such scholarly work for leaving significant questions unanswered. One of these concerns being the lack of concerns with the treatment of the individual in ontological terms, and thus an incomplete exposition of the concrete relationships between the ideal-typical individual and such institutions. Also, I claim that some of the terminology around types of discourse is unfortunate as it excessively limits what is recognised as political. Moreover, I fall back on insights from the sociology of policy instruments in order to gain insights into the way policy-makers relate to the individual in different, and themselves political, ways.

This chapter proceeds in five steps. The next section introduces the concepts of polity and discourse as laid out by constructivist institutionalist scholars. Following on from the indeterminacy of the mind and the state as an institution and a set of policies with

potential influence over the definition of economic agency, the interactive character of the state-individual relationship is set out. Discourse is central here as it communicates naïve theories in more or less direct way and relates to the legitimization of polities and policies alike. At the same time the discourse between policy-actors gives indications about how economic agency is made sense of in a specific rationale for state intervention. Thereby I explain how this existing body of literature speaks to my concerns, but also how I am using it in the thesis. In short, I show how it can be taken as a tool towards providing a vision of markets and comparative capitalisms that opens the space for the political in an alternative way. Part three turns towards how policy issues stand in relation to the wider public, and what kind of legitimization processes different polities imply. The exact relationship between the individual and the state is central here, focussing on form and content of policy interventions simultaneously. The political implications of polity structure upon policy design are underlined with recourse to the literature on the cognitive aspects of policy-making (Surel 2000).

Building upon what has been said about the inevitably political nature of state activity, I make the claim in the penultimate section that even though some polities display legitimization mechanisms that seem to be less normative than others, it would be uncritical to think that they were outside the realm of the political. It is here where some of the denominations from the constructivist institutionalist literature are reviewed. In doing so, I logically follow on from statements made in previous about an alternative and constructivist understanding of the political, based upon an ontology of the individual. The conclusion recapitulates the main points and bridges

over towards the case studies in chapters five to eight by exposing the implications of the theoretical framework for the empirical analyses.

2 Constructivist Institutionalism Explained: Politics and Discourse

Before going into the details of the concept, a short note on the terminology of the approaches is necessary. The concepts of ‘discursive’ and ‘constructivist’ can be used interchangeably in relation to this type of institutional analysis. As my approach here focusses on the constructivist account of varieties of capitalism, this term is more adequate here. Even though different scholars have set out slight variations in this regard (Hay 2001; Jabko 2006), these differences are a matter of emphasis, not one of essence (Schmidt 2008a, 304).

The denomination of polity (Cherry 2009) comprises the ‘formal institutional context’ (Schmidt 2008a, 303 and 312) in which state activity takes place, hence historically constructed patterns of state composition and activity that are unable to change in the short-term (Schmidt 2008b, 9). Aspects here are the degree of state centralisation (Schmidt 1999, 142), the organisational structure of firm collaboration with the decision-makers (Schmidt 1999, 143), business-government relations (Schmidt 1999, 153) and the way interest group can access policy-making (Schmidt 1997, 135). In short, politics are about the structural patterns of how certain groups in society can talk to the state as a political institution and how much leverage they have over the policy process. To use the terminology from above, the concern here is with the form of the individual-state relationship, with the state as an institution. In this sense,

institutional settings come with certain communication channels in relation to the individual that then influence what kind of axio-rationalities can be prevalent in a certain regime (Howarth 2005, 343). Again, the latter are partly engrained in historic trajectories (Steinmo 2008; Streeck 2009), just as certain state traditions more generally are (Dyson 1980, 3).

Schmidt distinguishes between ‘simple’ and ‘compound’ polities (Schmidt 2006a).

The first type are often

‘single-actor’ systems, with the concentration of power in the executive, a unitary state, a majoritarian electoral system, and ‘statist’ policy-making process in which governments tend to formulate policy largely absent outside input (Schmidt 2001a, 251).

In other words, these states tend to be governed by governments in a way that the responsibility in respect to the individual solely lies with the members of this party (Levy 1999, 288). This design is ‘simple’ as it identifies two clear sides, the state in the form of the official organisms that are involved in the policy-making process, and all the other actors such as firms, labour and the wider public. There is hence a clear division between policy-makers and policy-takers (Streeck and Thelen 2005; Streeck 2011). Civil parties can voice concerns and issues with the state, but they are not properly co-opted, at least not through institutionalised procedures. In such a configuration, the state, defined in narrow terms of policy-makers, is perceived as leading the task of economic governance (MacKinnon 2000). From here onwards, I then extend or re-interpret the constructivist institutionalist framework in relation to the individual. Even though the approach implicitly assumes particular individual-

state relationship, they are not outlined in a discussion. What is of importance to this chapter then is that in a simple polity, the responsibility of shaping the economy lies with the state in its limited form. This is central when the debate turns towards forms of legitimation regimes, in relation to the polity and policies, as put forward in the previous chapter.

In a compound polity by contrast, the line between state and extra-state actors is more complicated to draw as some peak organisations are picked by the state apparatus to consult it (Schmitter 1977). In other words, there is an intersection between policy-makers and policy-takers, with some actors playing on both sides. The policy process involves closer relationships with privileged access to the state being granted to selected group. The design is said to be ‘compound’ or mixed as certain interest groups benefit from direct channels towards policy-makers, and are actually more or less formally embedded into the decision-taking procedure (Schmidt 2001a, 252). As access is not fought for but attributed, the policy-logic is smoother in the sense that too radical demands would not have been granted access in the first place (Meineken 2000). As some of the civil voices are integrated, the policy responsibility is shared. Because the state has reached out towards the general population and selected several representatives of the civil society, policy is seen as being in the interest of the wider society, by definition (Scharpf 1997). Again, these lines of thought are taken up when differences of legitimation regimes (Foucault 1984, 72) and individual-state relationships are explored in the next section.

The Schmidtian notions of ‘policy sphere’ and ‘political sphere’ (Schmidt 2006a, 254) are useful tools to clarify the distinction between various types of polities. In a simple setup, policy-making refers to the process of collective decision-making that only comprises narrowly defined state actors. In a compound polity, there are additional actors in the process, like co-opted peak organisations. Schmidt defines the institutional locations where policy-making takes place as the ‘policy sphere’. The sphere of the ‘political’, according to Schmidt, only opens once these policies are presented to the wider public, to the individual. Communication is hence reduced to take place between the state and the individual (‘arguing’), whereas the ‘bargaining’ process is excluded from constituting discursive utterances (Risse 2000; Schmidt 2008a, 312). This denomination in the form of an opposition between ‘policy’ and the ‘political’ is somewhat unfortunate I argue as it suggests that internal state decisions are free from political content (Schmidt 1997, 137) and that they are not facilitating particular naïve theories. This is a point that runs counter to the arguments and methodology of the thesis and are addressed in more detail with the literature in the ‘sociology of policy instruments’ in this chapter.

Furthermore, in a compound setting some civil groups are part of both arenas rendering the distinction even more complicated to operationalise (De Vries 2010, 97). However, Schmidt builds upon this dichotomy when she defines different types of ‘legitimizing discourse’ (Schmidt 2000, 278; Wagenaar and Hartendorp 2000, 147) by referring to Habermas’ concept of communicative action (Habermas 2001; see also Dryzek 1990; Scharpf 2003). Thus a somehow artificial dichotomy arises. I use the concepts here as heuristic tools, and as such they are useful tools to highlight elements

of the theoretical framework of the thesis, as well as of the findings in the empirical chapters.

‘Coordinative discourse’ is found internally to the policy sphere, the ‘public sphere’ (Schmidt 2008a, 309). Hence it occurs when different policy-makers talk to each other and try to put together a plan of action. These utterances are coordinative as the different sides come to a certain agreement, or not. They coordinate state policy among each other (Risse 2000). The notion here is not concerned with the distribution of power among interests groups, it merely draws attention to the discursive dimension of language in the policy arena. This is important to mention as certain interpretations of economic agency are produced and reproduced among policy-makers (Grube 2010). The literature of ‘sociology of policy instruments’ (Lascoumes and Le Galès 2007; also Etzioni 1975; Bemelmans-Videc et al. 1998) explores how a certain setting leads to a narrowing down of the ‘policy instruments’ used as some appear more legitimate to the policy-makers than others (Howlett 2011, 41). Again, I use this approach this strand in relation to specific individual-state relationships.

Then in the political sphere, to use Schmidt’s terms, the relationship between the state and the wider public, ‘communicative discourse’ takes place when the policy circle justifies, or legitimises, its decisions to the public. This is what some scholars in discourse theory look into (Swedlow 2002; Béland 2009). These utterances are communicative as the decisions taken are meant to be accepted by the wider public, hence the individual as framed here. The acceptance of policies is most likely if the ideas promoted can be linked to existing policies, programs and philosophies, or

‘policy legacies’ (Schmidt 2002b, 899; also Schmidt and Radaelli 2004, 187; Schmidt 2008a, 303), hence naïve theories. It is a matter of rhetorically persuading the public of the soundness of the economic programme laid out (Finlayson 2006). Here, policy-makers act towards policy-takers, the latter being the recipients of discourse. In this sense, communicative discourse always displays top-down features. Even though Schmidt underlines that her framework allows for two-way-interaction (Schmidt 2000, 285), she works her way down from the policy arena towards the wider public as policy-making comes temporarily before its communication.

Both types of discourse are constituted by cognitive and normative elements (Schmidt 2006a, 255). Cognitive if they try to make a technical argument about why a policy measure is appropriate (Desrosières 1998, 6) and normative if such an argument involves ideas about how the economy or economic agency should look like (Raymond and Olive 2009). Here it is explicit that policy-makers try to push the system into a certain direction, in a way that is based upon certain world-views (Chadwick 2000). Schmidt argues that coordinative discourse i.e. between actors internal to the state apparatus, is mostly characterised by its cognitive content and that communicative discourse i.e. between state actors and the wider public displays more normative features (Schmidt 2006a, 255).

Constructivist institutionalism hence assumes that policy-makers are on the same level as they can discuss matters in a technical way, and that the wider public needs to be convinced by the programmes enacted. Schmidt does not deny that certain policy-actors are more powerful than others, but she highlights the political aspects of

communicative discourse over the coordinative one. This is done in a way that tends to explain away centrally political features from intra-regime discourse, not so much the politics of the ‘arguing’ process itself, but its outcome. In the end, the decision made collectively is also political in relation to the individual as it depicts some conceptions of economic life as more appropriate than others. In other words, it is in the coordinative phase that varieties of what constitutes good economic agency are marginalised, where certain policy instruments and interventions are delegitimated.

In sum, by distinguishing between the technical aspects of intra-state discourse and the moral elements of individual-state discourse, Schmidt inadvertently misses out on two sets of political elements of coordinative discourse. However, the latter are central to the attempts of thesis to present additional political features of varieties of economic regimes. First, it is here that various legitimisation strategies are debated in relation to a particular issue. For the case of housing policy for instance, various arguments are presented for and against supporting state initiatives to promote home ownership. In other words, it is here that it is decided upon which sets of naïve theories to be facilitated in relation to the individual, and which ones are excluded from the rationale for state intervention as they are deemed inadequate. As outlined in the previous chapter, this narrowing down of the potentially many varieties of axio-rationalities to promote takes place not so much in the communicative but in the coordinative phase of discourse. Second, such a distinction is blind towards the taken-for-granted conceptions of policy-makers themselves (Hussein and Le Galès 2010). In the debates of what naïve theories to facilitate, policy-makers might have a bias towards certain types of interpretation of economic phenomena. This is also captured

by the notion of ‘state traditions’ (Crouch 1993) but is also influenced by the concrete features of the individual-state relationship.

This is also the reason why the empirical cases studies mainly use parliamentary debates as they are sources of coordinative discourse. In the case of home ownership markets, what is important to focus on are the legitimation arguments brought forward by various policy-actors as they close off certain understandings of the homeowner and of the market. At the same time, such a discourse also outlines a larger framework of accepted meanings, the latter constituting the taken-for-granted conceptions about what home ownership is supposed to be, and how markets are supposed to work. In other words then, the silences in parliamentary debates are as important as the utterances as the both give hints at which views are heavily discussed and which go unchallenged as they are taken-for-granted. These moral assumptions then translate and are reflected in the concrete policy interventions. Put differently, the taken-for-granted conceptions influence which naïve theories are facilitated through state policies.

For the sake of illustration, the following picture emerges when the three dichotomies are taken together. The table below is meant to constitute a heuristic guide, not to be interpreted as displaying ontological dichotomies. Indeed, these terms are used to bring out additional political features in the case studies, not to set out a back-and-white theory.

Simple polity

Limited policy circle

Mostly communicative discourse

Mostly normative content

Compound polity

Extended policy circle

Mostly coordinative discourse

Mostly cognitive content

3 Relevance and Critique of Constructivist Institutionalism

At this stage I would like to explain in more detail why and how this approach is embraced with regard to the argument by discussing the notions developed in earlier chapters in relation to the constructivist institutionalist perspective. At the same time I point out the elements this chapter adds.

First of all, I have argued in chapter two that most of the comparative capitalism literature tends to turn a blind eye to the individual-state relationship. The framework outlined here adds to this point by putting polities and their relationships with the wider public into the centre of the analysis (Schmidt and Radaelli 2004, 192). But what is just as important is the way in which the political is integrated here. The state is not seen as an agent that is at the periphery of economic activity and acts through setting the legal framework to markets as some contributions to VoC have suggested (Hall and Soskice 2001, 2), but as an organism that is constitutive of economic life through its interactive relationship with the individual (Becker 2010). State legislation should be regarded as constitutive rules, not only regulative ones (Searle 1996). Also, against the constructivist institutionalist strand that just posits the importance of the state and then goes on with the individual in a rather superficial way or turns towards

the firm (Schmidt 2008c, 306), the approach here is different. As the previous chapter has outlined, the relevance of the state in this analysis logically follows from an ontology of the individual, and not from an analysis of state outputs as such.

Secondly, I further turn the spotlight towards the individual. Even though the literature here does not build the ontological bases for all its claims, constructivist institutionalism does integrate the individual into the domain of economic activity, even though this is done more or less implicitly. By stressing the embeddedness of the policy sphere into a larger arena of legitimation and discourse (Schmidt 1999, 142), the theory introduces the wider public, and hence the individual in a way that is unseen in either VoC or the comparative capitalisms literature. Indeed, it links the individual to (discursive) state activities. It implicitly states that economic regimes rely on popular acceptance (Schmidt and Radaelli 2004, 187; Schmidt 2008a, 303). Without making those links explicit, constructivist institutionalist scholars still link macro-issues with micro-processes (Scharpf 2000; Mabee 2007). How households interpret and make sense of their economic environment matters to the functioning of an economic regime, a point that I have made throughout, especially with the notion of micro-macro complementarities. The reproach formulated to the institutionalist body of literature here is that it is too cautious and implicit in fully revealing the deeper theoretical stances it makes.

Thirdly, just as I have explained in the previous chapter, the inclusion of the state and of the individual opens the spectrum to go “beyond politics as usual” (Schmidt 2009a, 1). It is at this point that the concept of the indeterminate mind comes back in to

consolidate the discursive analysis. As a reminder, the thesis posits that the human mind is not a universal constant and thus allows for variations of interpretation of the material and human world. Even she is not explicit about this, this also forms the point of departure on which Schmidt starts from when she introduces the notion of discourse and legitimation. Focussing on communicative discourse as a locus where governments convince the public about the rightfulness of certain policies, she assumes that there are different ways of interpreting the lived environment, and that certain polities come up with different discourses of legitimating their actions. In a sense, this argument as such presupposes an indeterminate mind, one that is open to potentially various modes of sense-making, hence sets of naïve theories. As I have argued before, once the ontologically prior elements of the individual are set out, the state becomes a relevant unit of observation, it is just that such an exposition rarely is proceeded with.

Another connection with my approach can be established. By enacting a specific discourse towards the individual, communicative but also coordinative, state policies try to achieve a modification of the axiological context into which economic agency takes place. It hence acts upon the ideas and interests held by everyday people (Schmidt 2008a; also McLennan 2004). The normativity of these efforts manifests the desire to change the interpretative frame of private agents towards their economic behaviour. In this sense, facilitations act upon the social environment of good and bad, the context into which economic rationality is embedded. Even though Schmidt does not talk about rationality, the links to previous discussions in the previous chapter are straightforward. In line with what I have argued, she tacitly implies that there is no such thing as fixed political ends but that they are fought over. Indeed, when she

makes claims about more or less successful normative statements (Schmidt 2002b, 899; Schattschneider 1960), she assumes that economic rationality can have various ends. Indeed, normativity has been defined as being about the *why?* of action, about the good and the bad options for a society to head towards.

I have thus displayed how the constructivist institutionalist setup fits with the framework developed so far, and how it adds new notions upon it, such as the concepts of polity, policy arena, and cognitive and normative elements. At the same time, I have foreshadowed how the concepts of axio-rationality and moral ends can be integrated into institutional settings. Most importantly though, what this exposition has demonstrated is how a recourse to constructivist theories such as constructivist institutionalism is able to start drawing out additional political aspects of varieties of capitalism. In the empirical chapters then, I operationalise the theoretical innovations developed in the framework in the comparative context of state interventions into subjectivities prevalent in housing and mortgage markets. For now, the argument now turns towards the question of how different polities influence the relationship between the individual and the state, and asserts that the state design has deeply political consequences for economic agency.

4 Polities and the Individual-State Relationship

Now that it has been explained why the constructivist institutionalist literature is tapped into, the argument develops in more detail how the individual can be brought into the analysis of economic regimes in a way that highlights the political features of

individual-state relationships more explicitly. This section thus combines the elements of the ontology of the individual, developed in chapter two, with those taken from the institutionalist approach outlined just above. I use the notions of individual-state relationships and legitimation regimes to set out differences in the way that state policies and definitions of economic agency interact in the (re)production of a specific variety of capitalism. As outlined before, it is crucial to consider how the individual relates to the state (as an institution and as a set of policies) and vice versa to better understand the features of state actions upon economic subjectivities and facilitation efforts in relation to a particular axio-rationality. This is mainly done through the operationalization of the concept of legitimacy (Weber 1918; Zelditch 2001). The issues raised hereafter attempt to shed light into differences in the institutional setup of the state and in the policy instruments employed. At the same time, the implications for the type of individual-state relationship observable in the case studies are set out.

As has been presented above, the distinction between certain polities is concerned with the extent of the policy arena. With compound polities falling back onto the advice of peak organisations and simple polities isolating the policy-making process to a much smaller set of actors, the positioning of the individual-state relationship differs considerably. These institutional features lead to a certain ‘justificatory message’ of an economic regime and are a ‘device for legitimation’ of particular state action and state setup (Obradovic 1996, 191). For the moment, I am concerned with the systemic legitimation (polity level), not the legitimation of precise policies (policy level; Gourevitch 1986, 17; McKay 2000). In a simple setup, the delimitations of who is in and who is out of the decision-process are clearly established. In other words,

there is a demarcation between the ‘in’ and the ‘out’, between policy-makers and policy-takers to use the previously used terms (Streeck and Thelen 2005; also see Maloney et al. 1994). Apart from leading to different power configurations in the policy-making process, it entails a direct connection between the state and the individual. In this case, responsibility for running the economy lays with the state, in its narrow form, and the wider public is the recipient of the programmes and the discourse that the state decides upon. The legitimacy of the regime then also needs to be generated directly in relation to the individual. In methodological terms, this means that the framing of policies in the parliament should feature direct attributions to the individual.

The feedback mechanism hence takes place outside the policy sphere itself as it passes through the individual (Alexander 2000). Not only is the policy sphere reduced, but it is the discursive interaction between the state and the individual that decides how popular and successful a policy intervention is (Wallner 2008). In the context of the human mind being open to normative schemes of interpretation, it is assumed that it is the state’s task to present a consistent theory of which ends economic agency is meant to achieve. The individual expects the state to come up with an explanation of how it considers economic subjectivities and that it communicates this through direct channels (Seabrooke 2010). State policies are then concerned with persuading the individual of the decisions enacted.

Consequently the communicative effort by state actors to convince society about the appropriateness of its policy agenda is at the forefront, just as the constructivist

institutionalist approach suggests. Moreover, the normativity of such action is acknowledged in the very attempt to convince. Indeed, the state needs to make clear in which ways its policy recommendations are ‘good’. However, and this presents a break with the constructivist institutionalist literature, even though the communicative channel is referred to here, the thesis is more interested in the political aspects of parliamentary debates as they highlight the deeper taken-for-granted assumptions of a particular rationale for state intervention. Indeed, the arena where different sets of naïve theories are fought over is the coordinative discourse. To use Schmidtian terminology, the ‘background ideational abilities’ play out in this arena (Schmidt 2008a, 303), the communicative channel relating the latter. As described, it is these taken-for-granted conceptions of policy-makers that structure state interventions in particular ways, hence facilitating particular sets of naïve theories.

In a compound polity then, it is harder to clearly delineate the policy arena as some groups play in both camps, being involved with policy-making and policy-taking. Logically extending the constructivist literature to the individual-state relationship, this blurred line has consequences for the way in which the individual relates to the policy process and its outcomes. Indeed, as the party system in simple polities tends to be more consensus-based with coalition governments, sanctioning the parties in power is harder (Lijphart 1999, 31). At the same time, the co-opting of peak associations integrates civil concerns into the policy-arena so that there exists a bottom-up channel of communications that attenuate the potential radical demands (Meineken 2000). In a sense then, the individual plays a lesser role in a compound polity as it is difficult to make out a small circle of actors that are responsible for unpopular policies. In other words, the design per se accommodates for legitimate

policy-outcomes (Sunshine and Tyler 2003, 518). Outputs are seen as legitimate because the process by which they are formulated are deemed legitimate.

This also influences the kinds of discourse used. As the feedback mechanism for the design of policies is internal to the policy sphere, the coordinative discourse plays a bigger role, just as noticed in the constructivist institutionalist literature. The responsibility is mixed and at times unclear as the policy process involves a wider range of actors. Political actors and the everyday person assume that peak organisations have better knowledge about how the economic regime works, and that hence the policy output is 'better'. As policy-makers integrate the demands of (particular parts of) civil society when designing the policies, the outcome is meant to benefit the collectivity. State policies then have less need to convince the individual about the appropriateness of a programme, as the form of policies itself act as a legitimisation tool. Also, the arguments are less normative as they have already been approved by some selected parts of society. Again, the thesis is not so much interested in the communicative side of discourse, but highlights these differences to explain the positioning of the individual-state relationship in different polity environments. At the same time, these differences translate into the coordinative discourse and the way that state policies are legitimated in such utterances.

This chapter demonstrates bit by bit how an explanation engrained into an ontology of the individual is able to expand the constructivist institutionalist literature and to bring out the political aspects of individual-state relationship, more particularly as far as polities are concerned. This subsequently allows for the inclusion of additional

political elements into the comparative capitalisms literature. The concepts of indeterminate mind, axio-rationality, technical means and moral ends are now applied to the individual-state relationship read through an extended version of constructivist institutionalism. It has been explained how varieties of interpretation of moral ends are possible, and how state discourse plays a role in the fixing effort of the human indeterminacy, itself an inevitably political move. The detour presented above embeds this discussion into a set of particular institutions that influence how the individual and his/her agency are addressed by policy-makers. The final part of the argument claims that policy outcomes in terms of the facilitated subjectivities are influenced by institutional design (Goodin 1996). In methodological terms, apart from the parliamentary struggles over a certain interpretation of economic phenomena, the polity context needs to be explored to shed light into comprehend the form and content of the naïve theories facilitated.

In simple polities, the state has the objective to persuade the individual about the appropriateness of its policies. The content of such policies not only needs to be framed in individual terms in the communicative discourse (Schmidt 2007, 993), but the coordinative discourse also needs to take this into account. Indeed, the policy needs to be designed in a way as to feature elements that benefit the individual directly, independently of the socio-economic standing of the particular person. As such, because state policies try to appeal to as wide a population as possible and explain why the path it has chosen is the right one for the individual per se, the target of policy tends to be the individual directly (Frank et al. 1995). The individual is understood in abstract terms without distinguishing between the various social categories that such an individual comprises in practice. In such a simple setup,

individuals form the basis of policy-making as the legitimization regime attempts to get as many individuals as possible on its side in relation to a specific programme (Smoke 1994). Again, legitimacy is only gained in the interaction between the state and the individual through state outputs. The concept of output legitimacy is hence relevant in this regard (Scharpf 1999; Schaefer 2006), just as is the ‘delegate model of representation’ (Miller and Stokes 1963).

In compound polities however, the logic is that the state calls upon specialist knowledge in order to analyse the economic situation and takes the measures required (Bader 2008). This technically-framed approach emphasises coordinative discourse in the sense that it is about how to maximise the general benefits of the policy field, the economy for instance (Bressers et al. 2011). The policy-target is the collective wellbeing, and the policy-process includes organisations from civil society that bring particular issues onto the table. However, as those groups have been selected to represent large economic issues for the economy, they are often linked with macro-concerns that state policies also support (Heise 2008). The individual per se does not form the basis of policy-making. Less openly normative elements find their way into both types of discourse as the state is concerned with finding the ‘best’ solution over a certain time horizon. That means normative elements are often covered in technical language. As the state has already concerted parts of society, the policy output is legitimate by procedure. In contrast to simple polities, the notion of ‘input legitimacy’ applies in this case (Scharpf 2004), just as the ‘trustee model of representation’ does (Kay and Silberton 1995). These reflections are hypotheses that are logically drawn from an extension of the constructivist institutionalist literature, and against which the empirical cases are tested.

Differences in legitimation regimes then also play into the framework policy-makers adopt (Hall 1993). This is where the argument reaches its final stage as the institutional setting acts upon which policy instruments are most probable to be implemented (Hood 1991 and 2006; De Vries 2010, 103). The sociology of public policy instruments literature is central in regard to types of legitimacy (Lascoumes and Le Galès 2007, 12). The policy-actors inside the enlarged policy arena, legitimised through the procedures of their own selection (Howlett 2000), regard themselves as the manager of the macro-economy, the agents that have an overview of the regime and are hence able to adjust its constitutive elements into a functioning whole. The relationship with the individual as a policy recipient is only indirect.

Again, logically following from a constructivist institutionalist framework, this leads state policies to be more concerned with macro-issues than with addressing the individual subjectivities directly. However, even though the state might not undertake explicit action to temporarily fix the indeterminate mind by making openly normative claims about proper economic behaviour in general, the way it deals with the management of the economy still produces certain moral frames of interpretation. The depiction of the economy as a whole system where the individual can trust the state institution to successfully manage socio-economic outcomes still entails assumptions about individual agency. According to the line of thought pursued, the individual is regarded as a rather receptive part inside a larger community that is taken care of rather than an active entrepreneur of his/her own destiny. In short then, varieties of economic regimes come with differences in definitions of economic agency. This is captured through the notion of micro-macro complementarities.

5 The Politics of Politics

Once the differences within features of the individual-state relationship have been highlighted, it becomes obvious how the term political, as discussed throughout the thesis so far, can be applied to these differences of design. Again, picking up on the literature on the sociology of policy instruments (Lascoumes and Le Galès 2007; Clift and Tomlinson 2012), I argue that the differential individual-state relationships entail different state perspectives about the economy that are then narrowing the window of potential types of policy interventions (Kingdon 1984). This relates back to the taken-for-granted conceptions of policy-actors alluded to earlier. Again, my approach goes beyond the constructivist institutionalist account as I offer a deeper discussion of individual-state relationships that is relates to the ontological reflections earlier, and that locate the political not only in the ‘policy arena’ (Schmidt 2000). Indeed, a depiction of coordinative discourse mainly being cognitive or technical is challenged in favour of coordination being a deeply political phenomenon (Watson 2005b; Thelen and Hume 2006).

As the thesis highlights the effect of state policy upon economic subjectivities, this section displays the ways in which this takes place with reference to various legitimization processes. The direct relationship between the state and private individuals (in a simple setup) entails a model of legitimization that is unmediated. Phrased differently, the economic regime can only be justified if a rationale for state intervention appeals to the individual. The legitimization process focuses upon output legitimacy. For Schmidt, the politics of politics is identifiable in the communicative domain between the state and the individual, and links it to the democratic character

of a society (Schmidt 2006a, 258). What is considered to be legitimate is fought over in the public domain, between state actors and civil society. Such a perspective matches with the literature on the ‘democratic gap’ of the European institutions as they do not perform a unified communicative discourse (Héritier 1999). Not going into discussions of which polity is more ‘democratic’ as such a debate is beyond this thesis, I however claim that Schmidt’s conceptualisation of the political is limited as it is unable to see how the very design of the polity carries political elements (Hall 1993). Instead, I argue that different polities constitute political entities not only for the distributional implications of policies, but also for their setup limits the policy instruments chosen. In other words, the ontological bases of polities are political themselves.

In a simple institutional setting, following the immediacy of the legitimation regime, policy-makers regard private individuals as the core constituents of the economy and hence use policy instruments that reflect such an understanding. A general tax break in the VAT for all members of society might be an example here. The economic system is seen as a collection of individual agents that all act according to a calculative rationale that tends to maximise individual well-being. Such conceptions lead policy-makers to concentrate on micro-economic issues in the sense of modern economic theory (Fourcade and Healy 2007), as being related to individual behaviour. The individual per se is seen as the constitutive part of the economy. In order to produce macro-economic change, it is the individual that needs to change its behaviour. And here we are back to naïve theories of everyday people and the notion of axio-rationality. The way to act upon the definition of human agency is to modify the meaningful context of interpretation surrounding economic behaviour, as

explained in chapter three. In other words, state policies tend to infuse certain moral ends into the subjectivities while modifying the naïve theories held. The latter are then performed in the practical terms, when it comes to making economic decisions (MacKenzie 2006; Langley 2010). The cases of housing and mortgage markets analysed later on are economic phenomena that present such loci of individual-state interaction.

If state policy acts upon the way the individual makes sense of his own activity, then it is able to influence his/her behaviour (Marsh and Tilley 2010). As the economy is regarded as the accumulation of a vast number of rational individual agents, policy-makers might conceive of their action as potentially manufacturing economic outcomes through policies that focus on the individual level (Rose 1999). Such efforts are targeted at the individual itself, not as a member of a particular social group. An immediate legitimation regime thus narrows the window of potential policy instruments as it regards those that target the uncategorised individual directly as most appropriated (Zahariadis 2008). This statement must be seen as carrying political content as it marginalises for example policy instruments that act upon the economy as a totality made up of various groups of individuals. Such taken-for-granted conceptions bias the policy content towards the individual as such, and against the collectively as a totality. The example of the tax break for all thus stands against one where policies grant such a break only to doctors for instance as they are believed to enhance the health, and hence the reproduction, of the whole society.

As compound polities derive their legitimacy through a channel that is internal to the policy arena, not only is the relationship with the individual more indirect, but the way policy-makers themselves see the individual also plays out differently in the policies enacted. Policy actors are legitimate representatives of the community because they have been selected to be in such a position. Their legitimacy is derived from their leadership in society because they know best (Headrick 1992). Policy-makers in the extended sense regard the economy as a whole, not so much the individuals that make up for it (Desrosières 1998, 178). Economic outcomes are not simply the aggregation of individual rational behaviours but are the results of a complex structure of various trends in society. In contrast to the state in a simple polity then, policy-makers here do not use policy instruments that speak to the individual per se in the sense that they try to act upon changing his/her incentive structure, but that are framed in terms as to produce benefits for the whole of society.

Indeed, a rationale for state intervention identifies certain socio-economic categories in the overall economy and attempts to maximise the well-being of each of those groups according to their own principles. This is meant to benefit the society as a whole. Policy success is then measured in how far society and its subgroups evolve in a way that is deemed socially and economically desirable by policy-makers. This can be done through the use of statistical analysis as a technical tool of objectifying, hence depoliticising, underlying assumptions of good macro-economic performance (Habermas 1970; Hecken 2010, 153) that are transmitted throughout time. The societal good is hence seen to be of such an importance that it needs to be managed by a technocratic elite (Rahman 2011). State actors then address the individual as a member of a certain socio-economic category that is deemed to deserve public support.

Just as in the case of a simple polity, certain views of the state and of the management of the economy in the eyes of policy-makers limit what policies can be enacted. In such a meaningful context, a tax break for doctors only makes more sense as they are supposed to entail a general rise of health standards.

As a note, it is worth clarifying that what is central here is not only the exact content of state policies but also their legitimation. An analysis of the argumentations between various policy-makers highlights not only the positions of each, but also the common stream of understandings within the latter. Indeed, I argue that in various individual-state setups, the justificatory narratives presented significantly differ between regimes even though that does not undermine the disputed nature of policy-making. In the empirical analyses, what is important is to bring out the arguments for why a certain kind of state intervention is appropriate, as these utterances are facilitating certain sets of naïve theories, in addition to the material aspects of policy directly. At the same time, it is also central to look into the assumptions about the economic and of conceptions of economic agency that are taken-for-granted, that are not discussed but still enacted into legislation. The depiction of who should be granted housing support for instance matters, just as does the rationale for why certain households receive interest relief on mortgages, to name only a few examples.

Differences in legitimation regimes bring with them different conceptions of the individual by policy-makers and hence different state interventions. These differences are political per se as the polity structures conceal various policy instruments that are the not put into practice when it comes to policy programmes. Again there is violence

being performed against some conceptions of how and why to intervene into the economy. There are two sets of reasoning here. First, the very observation of differences in policy approaches shows that certain kinds of rationale for state intervention are more prevalent in some economies than in others because policy-making is understood in different terms (Hood 2007). Hence, polities exclude alternative conceptions of how the individual fits into markets and the economic system, they marginalise other naïve theories or even state traditions that have a different understanding of the role of the economic agent in society. A more macro-based perspective that addresses individuals only as a member of a social group (compound polity) favours more paternalist state interventions and excludes more individualist perspectives of economic agency. In simple polities where individuals are considered to be the core constituents of the economic make-up, social groups play a less direct role in the policy determination and the individual per se is seen as central. These differences can be denominated as political as institutional setups do violence to some policy interventions for the sake of others in an *a priori* way.

Second, polities are also political as different conceptions of policy instruments entail different outcomes for different groups in society (Aninat et al. 2006). In other words, they imply distributional consequences. Indeed, a focus upon the individual is likely to come with policies that favour the immediate interests of private people, especially those that follow state prescriptions about good micro-economic behaviour i.e. in line with the moral ends depicted as appropriate (Watson 2008a). As the economy is seen as the aggregation of individual capabilities, the state is likely to focus its efforts on the maximisation of individual wealth (Watson 2011a, 3). That is not to say that macro-concerns are absent from policy reflections, but the means to achieve them

pass directly through economic agency. Logically then, private consumers should benefit more in relative terms from such an institutional setting than producers do, as they are the targets of policy measures. As a reminder, this is due to the legitimization regime that is centred on a direct individual-state relationship.

On the other hand, a state that closely consults with peak associations and acquires its legitimacy through its self-declared knowledge on what is best for its citizens, hence economic agents, is more likely to produce results that are favourable to the organisations that advise it. Firstly because it tends to follow their suggestions as they can organise their consultancy effort collectively (Lowery 2004). Secondly the latter are regarded as central intermediary actors in the successful management of the economy (Xiarchogiannopoulou 2010, 21). The targets of policies are social groups but also the peak organisations and economic sectors they represent, not individuals directly. It is thus likely that, relatively speaking, those associations that are best organised are able to move policy outcomes into a direction that benefits the economic parties they represent (Boll 1994). Unless there is a strong policy player that defends the interests of individual consumers, the producers should be privileged in such a setup. Again, these are hypotheses that the cases in the next chapters test.

I have outlined two dimensions to the notion of the political here, one is conceptual, the other one that logically follows from the first is material in terms of the distribution of power and outcomes. It is noticeable that this is a translation of the principles that have also outlined the political characteristics of naïve theories set out in the previous chapter. Indeed, it is the policy-makers' conceptions of how the

individual relates to the economy and to the state that influences which interventions are to be performed. The concept of naïve theories has just been re-applied to policy-makers themselves. At the same time, the notion of state traditions (Dyson 1980, 3) entails that the state displays an institutional memory (Stein 1997, 732). Consequently, whatever the motive, state interventions are political to the same degree as naïve theories are, ontologically and in distributional terms.

In relation to coordinative discourse, caution needs to be applied when analysing policy argumentations. Indeed, however objectified policies might be debated about, they always bear a political character (Swanson 2008). First they are always carriers of normative or prescriptive statements about certain socio-economic groups, either loaded with positive or negative connotations. That is also why this thesis is more oriented towards coordinative discourse in its empirical studies than to the communicative discourse. Indeed, parliamentary analyses are investigating the debates internal to the state apparatus, and hence those that infiltrate a particular rationale for state intervention. The very way of how policy-makers talk to each other carries normative weight as it reproduces certain views of how to conceive of economic agency and the individual-state relationship. It is this weight that inevitably is also carried through in the material aspects of the policies themselves and hence facilitates certain naïve theories. Again what is central are the justificatory narratives employed to legitimate certain policy interventions. As such a technical approach to collective issues is as political as an openly normative one as both represent their way of dealing with them as appropriate and delegitimize the other one (Habermas 1970, 48).

To sum up the novel forms of the political that the theoretical chapters have outlined, I have first come back to the ontology of the individual developed in the previous chapter. The framework has started to make a case for the indeterminacy of the human mind and for the central role that naïve theories play in our understanding and reproduction of the world around us. By exposing the concept of axio-rationality that shifts attention towards the moral ends of human agency, the thesis has opened the possibility of varieties of interpretations of economic life. And as some conceptualisations are adopted over others, naïve theories themselves are political, first because they exclude other understandings of the economy (1) and second as they lead to behaviour that is relatively more beneficial to some actors than to others (2). Then, once we agree that the state, as a modern institution that is regarded as being a managing actor of contemporary economic processes, acts upon the moral ends of behaviour through state policies and upon the way economic agency is defined, a second layer of the political is added. There are varieties of how the individual-state plays out through policy-making in relation to the individual indeterminacy. On the one hand, certain taken-for-granted assumptions and state traditions influence which policy instruments are judged to be adequate, and which interventions are deemed improper. As such, they marginalise alternative policy interventions (3). On the other hand, the political also lays in the content more directly as they influence what socio-economic groups benefit most from them (4).

In addition to the distributional aspects of policies as understood in the literature review chapter and as captured by Lasswell (Lasswell 1936, what has been conceptualised here under (4)), this theoretical framework offers three additional feature to accounts of comparative capitalisms. The politics of naïve theories, per se

(1) and in their distributional implications (2), and the politics of politics in ontological/theoretical terms (3). The table below schematises such a contribution.

The Political Aspects in Capitalist Diversity

<i>level of analysis</i>	<i>focus</i>	
	Ontological level, theoretical	Policy level, distributional
micro	‘good’ and ‘bad’ naïve theories (1)	naïve theories: ‘good’ and ‘bad’ individual behaviour (2)
macro	Politics: ‘good’ and ‘bad’ political systems, taken-for-granted conceptions (3)	‘good’ and ‘bad’ policies: material implications (4)

Before moving on to the application of the theoretical framework developed in the last two chapters, I introduce the rationale behind the case selections. I shortly explain why the economies of the United Kingdom and Germany are chosen, as well as their respective housing and mortgage markets.

6 Conclusion: British and German Housing and Mortgage Markets

As the second part of the theoretical framework that underlies the thesis, this chapter has opened the black box of the individual-state relationship and explored the implications of differences in such relationships. The aim was to link together the concepts of the individual and the state developed in the previous chapter in a more detailed way, and to present the politics of state traditions. After having gone over the essential elements of the constructivist institutionalist literature in the form of a discussion of the delimitations of the policy-arena and of coordinative and communicative types of discourse, the chapter has developed an argument about varieties of individual-state relationships based upon differences in legitimization regimes. The central point is that the different polities imply different justificatory narratives. The form/targeting and content of the latter influence the way policy-makers depict the individual, and hence how legislation is legitimated. As far as the political elements are concerned, the setup of the individual-state relationship must be seen as political as it narrows down the window of possible state interventions, and hence the sets of naïve theories that can potentially be facilitated. To use Bourdieusian language (Bourdieu 1980, 88), naïve theories are structuring and structured at the same time, structuring interpretations of the lived environment, and structured through particular individual-state relationship and polities.

In the following chapters the British and German polities and policies directed towards home ownership and mortgage markets are analysed in line with the literature review and the framework presented here. The case selection follows from the overall argument. As presented in chapter two, the British and German economies have been

classified as displaying different, if not opposed, characteristics on a whole range of factors from internal firm structures to their banking system (Anderton 1999; Gospel et al. 2011; Hall and Soskice 2001, 19). As the argument is concerned with showing how differences in capitalist economies, more specifically in taken-for-granted perceptions, naïve theories, policy interventions and polities play out in practice, these cases have been picked to carve out what amount of difference can be found in these areas. From the literature, the UK is taken as the example of a simple polity whereas Germany is assumed to be a compound polity (Schmidt 2002a, 113). I thus follow the same logic than the VoC literature and the works in constructivist institutionalism, but apply a novel method to demonstrate that the political aspects of varieties in economic setups are more complex and layered as the current literature suggests.

The rationale is to demonstrate that not only do these varieties of capitalism feature different firm-specific variations, but that they are also characterised by differences in the way the individual, the state, and the economy are conceptualised in both economies. These variations then entail different approaches to policy-making when it comes to housing and mortgage market intervention, but also different political outcomes (Smith 1990). What is investigated is not only which conceptions of economic agency have been facilitated in the cases selected, but also which political consequences such differences had. Indeed, the central argument of the thesis is that once a particular constructivist framework is set out, it allows to investigate variations of socio-economic organisation that come with different positionings of the individual within them. As the individual-state relationship differs, so do its political features. However, the definition of the economic subject in relation to the state is always political, as developed in these chapters. The home ownership and mortgage markets

then not only differ in how home owners and mortgagers are made sense of as agents within such market mechanisms, but also how such naïve theories are political in themselves.

For these two countries, the housing market has been opted as it displays very different price trajectories, especially as owned houses go (OECD 2005). But most importantly, the housing market is a space where the individual and state policies come together in a discursive way (Marston 2002). On the one hand housing decisions are taken by all of the citizens at some point in their lives, on the other hand due to the high amount of financial assets involved in this market, it plays an important role in the overall economy (IMF 2011). The very existence of housing policy is an indicator of a rationale for state intervention addressing the moral ends of the good home owner and good mortgager. Furthermore, there is potentially a reasonable degree of uncertainty in how to conceive of such a good as accommodation. Also, as housing is a domain that has traditionally been conceived of as a good that features at the edge of the private-public dichotomy, it is a topic that is susceptible to justificatory narratives as far as state interventions are concerned (Mortensen and Seabrooke 2008).

An investigation according to the concepts described here is therefore plausible, especially in the context of these economies displaying very different house price trajectories over the last decades. In other words, various types of accommodation have been valued according to different logics over time in the UK and Germany. The thesis argues that those differences cannot be explained without a closer look at the

individual-state relationship in both countries in the context of state policies addressing the economic subject/self. As the most recent house price boom gained momentum in 1997, that is the start of the time frame under investigation. The end date is 2007 when British house price dropped rather dramatically in the midst of what is now called the credit crisis (Lanchester 2010).

The respective mortgage markets were added to the analysis as most of the explanations of the British house price bubble lay with the credit regulations around mortgages that fed into the housing market (Crouch 2009; Young 2009; Brassett et al. 2010). The connection between the two spheres is not only purely economic (Miles 2011), but also relates to the naïve theories held about them. Indeed, as a mortgage is often a tool to enter the housing market, the individual potentially sees the two domains as closely linked. Indeed, mortgages or loans are products that most of the households come across in their life at some point. This means that they have some conceptions of what they are and how and why they can be made use of, for themselves and as products in specialised markets. At the same time, if mortgages are essential to the economy, then state policies could address them as well. In other words, mortgage markets are a place where the individual-state relationship plays out. The same observation period is taken here so to analyse state interventions and households behaviour in the two markets in parallel. The hypothesis then is that similar naïve theories and legitimisation regimes are found for the two economic spheres within the same economic setting, and that differences are observed between economies.

Chapter 5: Naïve Theories of the British Housing Market

1 Introduction

After the theoretical chapters, this part of the thesis is looking at the empirical cases in order to apply the framework laid out beforehand. The next two chapters are dealing with the political aspects of state interventions into the meanings of the owned home and of the mortgage in the British context of a particular individual-state relationship. The two analyses follow each other as the hypothesis is that the naïve theories about the definition of economic agency and of market mechanisms display similar features between these two spheres of economic activity. This follows from the notion of axio-rationality as set out in chapter three where the meaningful context shapes the ways in which the human being makes sense of what an economic agent is supposed to be. As a reminder, the notion of naïve theories refers to the explanations that everyday people have about the interpretation of their lived environment and their position within it. As such, they are naïve as they represent a simplified narrative about the economic roles of the individual. As such, the thesis is interested in what Gramsci has called the ‘collective man’ (Gramsci 1971, 242), meaning the ideal-typical human being in an abstract sense. The notion of ‘agency’ then also relates to this individual, not the agential features of the individual taken on its own, as a single person. Again, the thesis is interested in exactly this normative, and hence political depiction of a certain kind of economic agent, or ‘economic man’ (Watson 2011b).

After these analyses the same method is applied to the German cases. Indeed, as the previous chapters have mentioned, the additional political characteristics of models of capitalism are discovered through a comparative method, comparing the actual conceptions of economic phenomena either to other theoretically imaginable ones (Soeffner 2004, 28), or other observed ones. As mentioned earlier, the very discovery

of varieties of economic regimes assumes the possibility for variations of how to make sense of the world, the latter having been explained in some detail in chapter three and four. Whereas these chapters have proceeded in the first way and have hence laid the theoretical foundations, the following are drawing comparisons between actual differences between varieties of naïve theories about how to make sense of this ‘economic man’. All of these chapters act in two interconnected ways in relation to the earlier expositions.

Firstly, they demonstrate how the theoretical developments can be operationalised in a way as to bring out differences in socio-economic models of economic organisation that have been hidden from the literature so far as explained in chapter two. I have argued in the review chapter that not only does VoC tend to shy away from a deeper look into concrete individual-state relationships (and that it can learn from the constructivist institutionalist literature), but also that merely bringing back the state into comparative capitalisms is a move that does not go far enough in order to unravel different political aspects in capitalist diversity. In chapters three and four I have then outlined an alternative framework to more fully integrate the individual and the state into an analysis of contemporary capitalist regimes. The individual is understood as this ‘collective man’ and the state being seen as an institution as well as a set of policies that act in relation to the making of such an economic agent. The empirical contributions showcase this approach by focusing on the exact individual-state relationships with respect to specific markets, the British and German home ownership and mortgage markets in this case. They then link back to the concepts of naïve theories, axio-rationality, means and ends, legitimation regimes, politics and

most importantly, the various notions of the political as summarized at the end of the previous chapter.

Secondly, the chapters ahead should also be considered to be contributions in their own rights as they offer empirical findings about a field of study that the comparative capitalisms discipline has not fully engaged with for now (see Schwarz and Seabrooke 2009, 1 as an exception here). Indeed, not only are most housing studies separate from current endeavors in political economy as a discipline, but more generally so are also investigations into consumer markets (Saunders 1990). It is true that some scholars have started to explore similar paths of enquiry (Langley 2007; Watson 2010), but none of them has linked their efforts to models of capitalist types of organization. Indeed, their reading of the individual is in one sense deeper in sociological terms as they are more directly interested in the agential features of the individual taken individually. On the other hand, this level of analysis is rather different to the attempts here in terms of the 'collective man'. The following insights into state policies as regard housing and mortgage markets, and hence with economic agency per se can be seen as an attempt to bring in consumption concerns into the study of comparative political economy (Iles 2006).

The following chapter investigates the meanings of the owned house facilitated in the British rationale for state intervention and the conceptions of economic agency that such efforts were accompanied by. The central question to be answered is which naïve theories state policy was depicting as adequate in the ownership market over the period 1997 to 2007, a time that saw significant property price hikes (Cutler 2002). In other words, what is the axio-rationality that was linked to economic agency, and

which moral ends was home ownership supposed to have in the British context (Forrest and Murie 1994). In other words, which naïve theories were promoted through particular state policies, in terms of legislation and shared conceptions of such an economic man discussed in the British polity. These conceptions are related to three more specific enquiries. First and foremost, I am interested in the economic subjectivities of the home owner, in the moral baggage that was attached to this notion and what political dimensions they comprised. The notion of the political refers back to the discussions in earlier chapters in the sense of distributional outcomes but also in terms of the side-lining of alternative definitions of economic agency.

Second, and this follows from the developments in chapter four, I also investigate the depiction of the role of the state by policy-makers themselves, the ways in which the individual-state relationship was understood by policy-makers and how such understandings were stating to engage with in regards to this stereotyped home owner through legislative initiatives. This relates back to the political aspects of politics and the taken-for-granted notions of policy-makers themselves as outlined in the previous chapter. Indeed, the thesis argues that the features of the individual-state relationship themselves as well as the exact depiction of the moral ends of state policies are deeply political. Third, this chapter also investigates the relationship between economic agency, markets, and state policies more generally. Which were the assumptions about economic agency that the state policies were depicting as most adequate in the case of the home ownership market? Overall then, questions relating to the making of the market participants are at the core of the chapters ahead, combined with insights into the particular understandings of market processes (Clift and Woll 2011). These

developments follow on from the theoretical explanations in the previous three chapters that have demonstrated the political features of the method suggested in this thesis. Indeed, policies are seen to be political as they do violence to alternative axio-rationalities but also as they influence distributional outcomes. Indeed, by breaking with universally valid definitions for the relevance of states as put forward by comparative capitalist scholars, and providing a framework that focusses on the concrete individual-state relationship as well as their variations, these chapters demonstrate the political aspects behind such specific conceptions (Clift 2012). What becomes central are the differential understandings of economic phenomena such as home ownership and the market for owned homes in the cases analysed hereafter⁸.

In order to present the argument, the chapter operates in a series of steps. After this introduction, I first present the housing programmes implemented by the British state policies to set out the general policy approach. I also start highlighting the underlying assumptions that such policies were making and what contradictions they were subject to. The exact economic and social terms in which the home owner as well as the housing market were legitimated also come into focus. This then relates to the moral ends facilitated, as well as to the political aspects of such policy interventions. Second, the chapter moves on to investigate depictions of the state by policy-makers in its capacity of ‘market-enabler’. I explain what such conceptions meant in terms of the relationship between the individual, the state, and the housing market. It is here

⁸ Even though the thesis makes no explicit claims about what is now denominated by the term ‘sub-prime crisis’ (Brassett et al. 2009), the argument puts forward that state action has contributed to the generation of conditions that have then sustained particular developments in the housing and mortgage markets. As those developments are now largely being accused of causing the crisis (Rajan 2010: 37), this thesis can be read as an investigation into a state project in the run-up of the said crisis (Ötsch et al. 2010). However, it is not the intent of the author to present a comprehensive review of the causes of the current situation, nor are the claims made in relation to the crisis.

where the topic of the making of a particular type of economic agency, hence axio-rationality, comes to the forefront as I underline how certain state initiatives were contributing to build a specific understanding not only of the home owner, but also of the individual as a market participant more generally. Third, the argument turns towards macro-economic implications resulting from the micro-economic subjectivities enacted. More particularly, I investigate how the British policy-makers interpreted rising house price trajectories, and what actions or non-actions were undertaken as a reaction to them. Again, I come back to the economic but also political tensions in the policies outlined. The conclusion sums up the main findings and links over to the subsequent chapter on mortgage market interventions.

As far as the methodology goes, I have looked at the most relevant parliamentary discussions as far as housing and home ownership are concerned. The rationale for such a focus stems from the theoretical discussions in the last chapters. As the thesis is interested in the making of the ‘collective man’, the main channel for state policies to facilitate certain sets of naïve theories (in relation to housing) is discourse (Jacobs and Manzi 1996). The data gathered are hence utterances from policy-makers themselves in order to shed light into their conceptions of economic agency that then translated into policy initiatives. Again, this relates back to the discussions of chapter four and the taken-for-granted conceptions of policy-makers. Even though Schmidt tends to focus on the communicative part of discourse as these statements are directly addressed toward the individual (Schmidt 2008a, 309), the thesis focuses on the coordinative side for reasons related to the previous chapter. Indeed, the arena where various interpretations of economic phenomena are fought over is not so much the public one, but the domain of policy-making itself (Piscopo 2011). It is a space where

the justificatory narratives of state interventions become apparent as they are explicated in relation to wider spheres of the economy (Vanderbeck and Johnson 2011).

In other words, it is here where the normative elements of a particular rationale for state intervention shine through, as characteristics of interventions that are (at least momentarily) shared among the policy-makers. At the same time, an analysis of such debates is best suited to reveal the taken-for-granted assumptions of policy-makers themselves that then limit the range of policy tools deemed appropriate, also in housing policy (Mandic and Clapham 1996, 86; Ruonavaara 1996, 90). As such, attention to communicative discourse does not allow highlighting the political features of politics as developed here (Schön 1979, 255; Gurney 1999a). Furthermore, such a methodology entails a more rounded view on the rationale for state intervention instead only taking into account very specific policy programmes as parliamentary debates tend to embed the discussions into larger schemes of state interventions. The overall rationale for state policies is hence drawn out. As such, the 'state project' refers to an overall logic of state intervention that is common to the various policies taken on their own. This implies a method that gathers information from the legislative details of the various initiatives and carves out the common features that were put forward in parliamentary discussions to legitimate such state interventions.

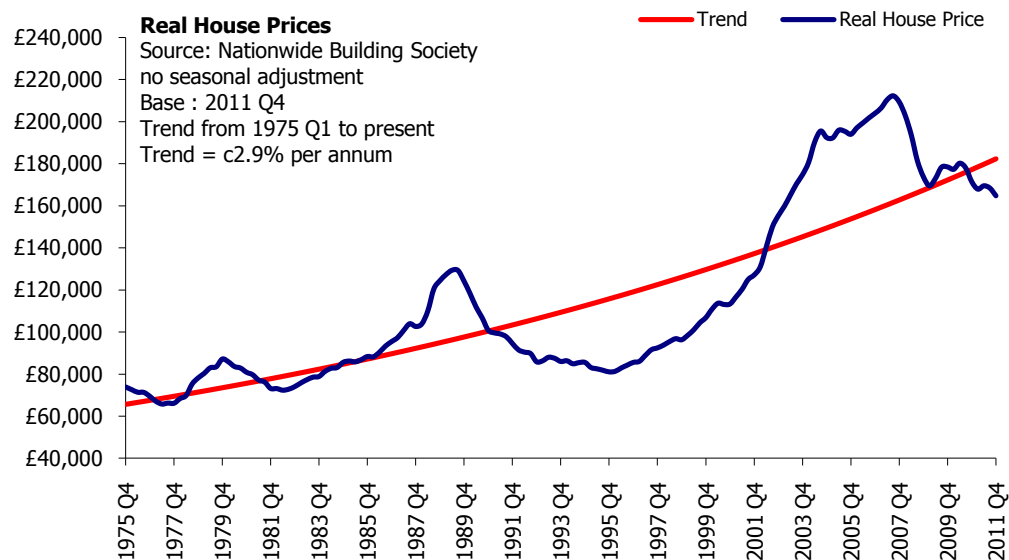
Relevant parliamentary debates have also been accumulated into a data base. Using the online search tool in Hansard (House of Commons Daily Debates), I have looked up all documents recorded between January 1997 and December 2007 that contained

the following words or parts of words: ‘home’ (for home owner, home ownership), ‘hous’ (for housing, house), ‘own’ (for home ownership, ownership), ‘mort’ (for mortgage, mortgager) and ‘sav’ (for savings, save). I have then narrowed down the documents to filter out those that are relevant in answering the research questions. This process has been done using the software packages of ‘Nvivo 8’ and Nvivo 9’ as well as some pen and paper work. The software was especially helpful in coding the data in a way that follows each of the sub-arguments made in the following two chapters. Instead of reading the data along the lines of the different debates in the House of Commons, the coding process allowed to read the data according to the recurring themes that ran across all these debates. This method relates back to the notion of ‘rationale for state intervention’ as it allowed me to draw out the main topics that were mentioned in order to legitimate policy interventions. The main lines of enquiry are those reported upon in this and the following chapter. As such, even though the housing theme was given, the separate arguments made in relation to home ownership policies emerged from the data itself. Also, the use of a computerised method allowed me to relatively easily illustrate the arguments put forward as it arranged the data thematically.

2 British Housing Programmes: Who is a Home Owner?

Between 1997 and 2007 British house prices for owned properties saw considerable increases (in real terms), this being the reason for choosing this particular time frame, especially in a comparative perspective. Indeed, house prices in Germany were flat over the same period (Scanlon and Whitehead 2004, 7; Ahearne et al. 2007, 44; Goodhart and Hofmann 2008, 187). The investigation of differential moral depictions

of the home owner and their political aspects hence becomes much more than solely an attempt to demonstrate the purely theoretical points explored throughout the last three chapters. It also constitutes a way to help make sense of the normalisation of the social phenomena underlying such market evolutions (Gurney 1999b).



Even though such price trajectories are not untypical for the British case as the market has been characterised by high long-term volatility more generally, that is not to say their modelling can explain the underlying socio-political conditions upon which such developments took place (Merrett 1979, 235). Indeed, there is now a considerable literature on explanations of house prices, mostly written from an economics point of view (Aoki et al. 2004; Benito et al. 2006). Other scholars adopt a more historical perspective and at times highlight the political tensions of such price processes (Merrett 1982; Malpass 2005). Still, these contributions tend not to explicitly focus the individual-state relationship and the facilitated understandings of the home owner in relation to models of capitalist organisation. In either economic or historical investigations, economic agency is not considered to be a political topic as it is not allowed to take on multiple forms. At least such a discussion is not explicit. Again, it

is only once the mind is taken as indeterminate that the individual becomes a political unit on his/her own. This chapter breaks with such a view by focussing on the contingency of the very definition of agents and markets, building on a framework that is able to account for varieties in naïve theories and legitimation regimes. Indeed, the economic agent should not be taken as an independent variable, but as a factor that itself is influenced through state action.

Even though British policies have a tradition of favouring home ownership, this alone is unable to shed light into the developments between 1997 and 2007, might it be for the sole reason that intellectual concepts always need to be adopted to contemporary economic and political contexts (Hamnett 1994, 281). As an example, when the Conservative Member of Parliament (MP) Skelton first coined the term of ‘property-owning democracy’ in 1924 (Evans 2010, 338), the main element was not centrally related to a nation of home owners. The notion was more closely linked to how labour and capital could be brought together and how their interests could be mixed in the industrial efforts of the time. Co-partnership was crucial to Skelton’s thoughts as he believed that directly integrating the workers into the profit-making motive of the firm was the most adequate way of minimising the chances of social unrest (Terrance 2010, 39). In 1945, MP Eden revived the concept that later became the hallmark of Margaret Thatcher’s policy framework with a much stronger focus on the home ownership motive (Terrance 2010, 175). Indeed, ownership figures have seen steady increases over the last century (Lund 1996, 52).

This chapter then is interested in offering a context-specific account of the mechanisms that were in place in the period between 1997 and 2007, especially in relation to individual-state relationship. It is also from such reflections that the focus on legitimisation regimes is deducted, the question arising of which social argumentations were put forward by policy-makers to endorse such a move. From the very start, the thesis has highlighted that because the human mind allows for varieties of axio-rationalities in line with the interpretative patterns in the social and economic environment, it is necessary to engage into further analyses of naïve theories. Indeed, the wider justificatory narratives put forward in the sphere of coordinative discourse are carved out through the study of parliamentary debates and enacted legislation.

When it comes to 1997 and onwards, the most dominant feature of British housing policy was its drive to include further people into the market of owned houses (King 2010, 89). Two observations can already be made here that are further developed and illustrated throughout the following paragraphs. First, this reflects a conception of home ownership as being a quasi-universal right as the policies conveyed a view that the state needed to help or support needy individuals into home ownership (Mortensen and Seabrooke 2008). As such, ownership was implicitly depicted as the tenure most desired as an end in itself that needed no further legitimisation. Second, the means by which such an objective was to be achieved were market mechanisms (Nanda and Parker 2011). What exact conception of the market this was meant to be is of central importance to this chapter as it gives clues about what roles state policies and the individual were supposed to play when it came to the provision of accommodation. These are two features that I explain in more detail when going through the different policy initiatives, or attempts “to ensure that people are able to

buy and sustain their own homes” (The Minister for Local Government and Housing, H. Armstrong, Labour: HC Deb 1998-1999 319 col. 733: 171198).

In 1996, the circular 13/96 ‘Planning and Affordable Housing’, together with the ‘Planning Policy Guidance note 3’ from 1992 (HC Deb 1997-98 298 col. 699: 240797), set the basis that influenced taken-for-granted assumptions of what housing was supposed to be. Indeed, it provided precise thresholds, later revised in the light of local concerns (HC Deb 1997-98 310 col. 307: 080498), for the amount of affordable housing to be built by local authorities. The logic was hence to encourage the building of owned houses at the lower end of the market so as to minimise the barriers to entry (Bramley and Morgan 1998). Such a strategy however was not always welcome by local authorities, highlighting the political side of such policies. The latter were concerned with the exact execution of these orders as they had issues with available land, green fields, and the quality of living in towns on their agenda (HC Deb 1997-98 305 col. 475: 280198). Also, they seemed sceptical about the appropriateness of such efforts in relation to the local and national environment as massive building efforts. Local authorities were not directly accountable for the making of housing policy and were reluctant towards massive building programmes as this could potentially lead to a situation where “(T)he electorate will not forget that betrayal at the next general election” (A. Steen, Conservative: HC Deb 1998-99 327 col. 300: 100399) where they would be accused of mismanaging the local natural environment.

It is significant that the argument presented against massive investments into affordable housing referred to the individual as a voter. This hinted at a direct individual-state relationship and legitimisation regime where state policies were directly accountable to the individual as such. Policy interventions could only be

undertaken if they benefited the individual voter in his/her capacity of an economic agent. The British policy-makers thus aimed at maximising individual well-being for all members of society, hence of the 'collective man'. The form and content of the instruments were chosen on the basis that they would be able to be presented to the electorate as beneficial for them as individuals. Local criticisms had to be taken into account to make sure the policies were actually enhancing the individual's position. The main source of legitimisation however lay in the individual and his/her legitimisation of the state as an institution and as a set of policies. Indeed, the direct approach applied to the legitimisation of the polity as well as the policy output.

This then relates to the two points made earlier. The conceptions of the owned home as a quasi-universal right was one that considered this tenure as superior in the sense that it enhanced the individual's standard of life (King 2003). This right was read in individualist terms as a way to ensure adequate housing (HC Deb 1999-00 354 col. 946W: 280700). At the same time however, such an interpretation also downgraded all other tenures to morally inferior levels. If the individual was seen as the central entity around which to build housing policy, such a belief did not necessarily imply that a market solution was to be adapted (HC Deb 1999-20 347 col. 811: 040400). Indeed, theoretically housing allocation could still be centred on the individual through direct state benefits for instance. Such reflections demonstrate the political nature of such taken-for-granted assumptions on the part of policy-makers. As I show in more detail in the next sections, the reasons for the adaptation of market mechanisms shed more light onto what kind of economic agent a home owner was meant to be. For the policies here, this supposed that the British rationale for state intervention reflected conceptions of economic agency that followed the naïve

theories of an active economic subject that plays the market in order to position himself at the frontier of the economically possible in terms of wealth accumulation. Such subjectivities were in line with standard neo-classical economic theory about utility-maximising behaviour (Snowdon et al. 1994, 198).

One way to ensure adequate housing supply at the lower end of the income distribution was “to use previously developed sites for housing. This helps regenerate our towns and cities and helps to protect our countryside.” (The Secretary of State for the Environment, Transport and the Regions, J. Prescott, Labour: HC Deb 1997-98 305 col. 825: 030298). Such a strategy was deemed able “to increase the supply of affordable housing secured through the planning process” (The Minister for Local Government and Housing, H. Armstrong, Labour: HC Deb 1997-98 319 col. 477: 171198), especially in combination with extensive housing investments programmes (HC Deb 1997-98 303 col. 159: 161297). The rationale for state intervention, even though concerned with overall housing supply, was eventually about enhancing the individual’s material position. Again, this pointed towards a direct individual-state relationship. In terms of policy instruments, this meant that only those were conceivable that targeted the individual agent as such in a direct way. As I show later in relation to market conceptions, the policies did not provide direct benefits to a large section of the population, but the logic was more one of allowing the individual to use his/her own economic rationality to accumulate wealth in the intermediary sphere of the market. As such, what the thesis is interested is not only the depiction of the home owner but also of the exact definition of the market as a social construct. Indeed, the constructivist lens opens the analysis to the possibility of differential ways to make sense of what is called ‘market’.

In the context of democratising the availability of home ownership (Denton 2001, 232), the British policy-makers launched a series of programmes, mostly targeted at lower-income individuals (HC Deb 1997-98 319 col. 191: 111198). This became obvious in 2000 in the Housing Green Paper 'Quality and Choice: A Decent Home for All', a document that was warmly welcomed by members of Parliament (HC Deb 1999-20 347 col. 811: 040400) as it put significant investment into housing. Other moves into this direction followed with mortgage interest payment support for low-income households (HC Deb 1997-98 308 col. 12: 230398) and the extension of schemes under the 'Low-Cost Ownership Schemes' banner (HC Deb 1999-00 354 col. 946W: 280700). 'Right to Buy' may have been the best known of these support schemes (HC Deb 2002-03 402 col. 84W: 240303; Munro 2007) and also the one whose name best represents the idea of ownership as a quasi-universal right. Even more explicitly, the programme initiated under the name of the 'Home Ownership Task Force' in 2003 looked into further options for 'potential home owners on low or modest incomes and identify the most effective ways of promoting home ownership' (The Deputy Prime Minister, J. Prescott, Labour: HC Deb 2002-03 401 col. 38WS: 180303).

Again, such initiatives pointed at policy actors conceiving of the state as an actor facilitating the enhancement of individual standards of living through market mechanisms⁹. But such policies also promoted certain political messages about the social value of ownership. As the policy openly targeted low-income households to help them move into ownership, this socio-economic group was singled out as the

⁹ This conception of the state has come under the banner of the 'enabling state' as New Labour politicians were referring to (Bevir 2005, 46).

problem, and this particular tenure as the solution. The normativity of such propositions was relatively unhidden, even if not always clearly expressed. As such, it forms part of the effort to side-line a conception that saw all tenures as equally valuable. Combining the two points made earlier, ownership as the end in itself and the market as the means, the coordinative discourse between policy-makers presented the state as the institution that could support individuals in helping themselves in a market context, supposed they were behaving according to the respective naïve theories of active economic agency.

We are also giving new help to unemployed home owners who are moving back into work. We are helping them to pay mortgage interest for the first four weeks after they start a new job. Some home owners, especially the elderly, are unable to maintain and modernise their property. We propose a range of new options to help more people to make essential repairs. (The Secretary of State for the Environment, Transport and the Regions, J. Prescott, Labour: HC Deb 1999-20 347 col. 813: 040400)

(...) new starter home initiative to help key workers, such as nurses and teachers and first-time buyers on modest incomes. The initiative will help them to buy their own homes in areas where housing is costly, in the town or in the country. (...) (The Secretary of State for the Environment, Transport and the Regions, J. Prescott, Labour: HC Deb 1999-00 347 col. 813: 040400)

Again, the relationship between the individual and the state was direct, every individual being judged on the degree to which he/she was able to act and perform in the ownership market. Other social features were deemed irrelevant as the only legitimate entry barriers into the home ownership market were regarded to be of monetary nature (S. Webb, Liberal Democrat: HC Deb 1997-98 315 col. 498: 010798). Such an understanding normalised ownership as the natural tenure for all individuals in society, independent of their social standing (Gurney 1999b). The problem then was only of how to make each individual participate in this market. The language of ‘helping’ clearly reflects a taken-for-granted conception by policy-makers that identified non-owners as problematic cases to be minimised. However, one of the contradictions was that even though the aim of extending housing property to all members to British society could be considered a morally worthy intention, it was this very expression that created a moral rift between those who owned and those who do not, a rift that was to be eliminated through the democratisation of market access and home ownership. This distinction becomes more manifest with further upwards house price evolutions as the latter did not equally benefit all groups in British society. In other words, the depiction of these naïve theories was carrying political weight, first in an ontological way as it did violence to alternative conceptions, and second in the distributional sense of the term as they favoured some members of society over others. As such, the rationale for state intervention of a united community of home owners featured internal tensions from the start even if these were not obvious back in 1997.

3 The State as Market-Enabler and Protector of Economic Agency

The British policy-makers regarded the state as an institution that was not only supposed to help individuals enter the home ownership market, but also to play it in a way as to generate wealth for themselves (J. Cousins, Labour: HC Deb 1997-98 308 col. 211: 110398; see also Murie 1991, 201). Those members of society that saw financial hardship disable them from accessing home ownership and those deemed to deserve an owned house due to their public profession were supported by public spending and adequate regulation¹⁰. The ‘market’ hence figured as the intermediary vehicle through which socially legitimate outcomes could be produced. This finding is important in relation to the definition of economic agency as regard market processes. One characteristic of such policies was the assumption that free economic agency constituted the *sine qua non* condition for desirable market outcomes. In other words, if individuals conceived of markets as domains where they could actively manage their economic, and hence social situation, then what followed as an overall result was desirable by definition, on the micro-level, but equally at the systemic level. Even if direct, the individual-state relationship was thus mediated through market processes in a way that the state was depicted as an enabler of market mechanisms more than of as an institution that allocates resources immediately (Hamnett 1999, 167).

In such efforts, the function of the British state policies was seen as guaranteeing beneficial micro-economic conditions that allowed individuals to play out their agency in a way to maximise their individual wealth (HC Deb 1998-99 323 col. 92: 120199). Economic outcomes were hence not directly engineered, but the means for

¹⁰ See earlier quotes in this chapter.

such ends were favoured through transforming an increasing number of individuals into active market participants. The rationale was that if behavioural changes could be brought about by the facilitations of particular naïve theories, the result to be was beneficial by mere construction. As such the end of the realisation of the quasi-universal right to home ownership could be achieved. The role of state policies was to design an economic environment in which market mechanisms would lead to entail socially legitimated outcomes on their own right (HC Deb 2001-02 387 col. 403: 200602). Whereas the market was considered to be functioning on its own terms, state policy had to provide the right input for it to design the appropriate output. The financial literacy programmes undertaken by the state at the same time reinforce such an interpretation of British policy initiatives (Finlayson 2009). They also demonstrate that the British state policies attempted to facilitate a particular understanding of economic agency, one of active management of wealth through the participation and active exposure to market mechanisms.

In terms of naïve theories, the economic self was depicted in terms of sovereignty, independence, and individual responsibility (Bröckling 2007, 108). State interventions were limited to ‘help’ to put individuals in a situation where they can play out this agency to their own advantage. What was provided was an opportunity, not a benefit directly (Rohe et al. 2002). In order to do so, individuals still had to adopt adequate behaviour in the housing market. Market participants were incentivised to engage in economic transactions to position themselves at the efficiency frontier and thus constantly maximise their utility. In other words, ‘the state helps people to help themselves’. Once the policies had made sure that entry barriers were lowered, market participants were supposed to take advantage of the conditions and play the market so

as to ensure their own economic success in terms of housing. The logic of the state intervention was to provide the initial impulse, afterwards entering individuals had no reason not to use their ‘financial freedom’ to improve their own well-being (G. Mudie, Labour: HC Deb 2005-06 441 col. 176WH: 170106). Of course, as the state policies ensured a constant incoming stream into the ownership market through its investments at the lower end of it, the economic laws of supply and demand tended to produce phenomena of asset appreciation (King 2010, 124). Interestingly enough then, state action helped people not only by bringing them into the market, but also by boosting demand for owned housing and hence by entailing price pressures, an intervention that was not mentioned as such as it ran counter to the facilitated naïve theories of the role of individual-state relationship.

The belief in the rightfulness of market mechanisms in the eyes of policy-makers, once the market was properly fed, was evident in the installation of the so-called ‘Home Seller’s Packs’ (HC Deb 1999-00 340 col. 206W: 011299; HC Deb 2001-02 378 col. 576W: 210102), introduced under the name ‘Home Information Packs’(hereafter referred to as ‘HIPs’) on June 1, 2007 (HC Deb 2005-06 445 col. 1678W: 030506). This requirement for additional market information, mostly relating to energy efficiency of properties, was meant to reduce the number of failed housing market transactions, hence to optimise market outcomes. The argument here was not about a potential market failure in itself, but the market performing sub-optimally due to the unsatisfactory conditions under which it was operating. The role of the state was conceived as to minimise information asymmetries that hindered market processes to work out in the interest of the everyday market participant. Once more complete information was provided, the market would produce more desirable

outcomes on its own. Such conceptions of market were consistent with neo-liberal economic theories (Grossman and Hart 1983) whose core assumption is an active understanding of agency. Indeed, such understandings of markets match with the focus on opportunity highlighted above and the notion of the ‘economic man’ chasing profit in the market, in this case the home ownership market.

What state interventions had to do then was to optimise market conditions so that individuals could take fully informed decisions as to maximise their utility (HC Deb 1998-99 337 col. 770: 111199). This was to be achieved through additional legislation in terms of information dissemination. Policy-makers hence saw themselves not only as enablers of economically responsible agents through the provision of economic opportunity, but also as technical market optimiser so to produce socially legitimate ends. Again then, the role of the state as an institution had to be extended into the regulatory aspects of markets in order to give the individual the opportunity to raise his standard of living through appropriate use of market dynamics. In other words, even though state policies first assumed that market mechanisms could be left untouched (HC Deb 2001-02 387 col. 403: 200602), they later had to intervene in order to make sure the individual was benefiting from them in a way as the policy-makers had conceived on in the first place (HC Deb 2006-07 453 col. 176W: 171106). This also meant that the very notion of the rightfulness of markets was relativised in purely theoretical terms, even if that was not acknowledged in practice. Indeed, optimal market outcomes were considered to be dependent on state intervention and facilitation. These comments are reminiscent of Polanyi’s double movement where the installation of liberal market processes entails a move for more state intervention (Polanyi 1957, 76).

Nevertheless, the logic was that the individual could only make fully rational decisions under conditions of perfect information (MacLennan et al. 1999, 18). In this sense, state policies made sure that individuals could make informed decisions, hence those that were supposed to lead to beneficial micro- and macro-outcomes. This conception of the individual not only demonstrated a strong belief in market mechanisms, but also highlights the assumption that public help was to come under the form of more market information, not in the form of direct benefits (HC Deb 2001-02 387 col. 402: 200602). So even though the individual-state relationship was direct in legitimisation terms, it was mediated by market mechanisms when it came to policy-interventions. It was believed that complete information would lead to socially benefited market outcomes as consumers were thought to act rationally as utility-maximisers. References to consumer sovereignty were then inherent in British housing policy, matching with the direct legitimisation regime (HC Deb 1999-00 347 col. 821: 040400). As the state was considered to be directly accountable for economic performances to the individual, its policies targeted the individual but in a sense as to be consistent with the assumption of individual freedom and the rightfulness of markets. Indeed, through the actions taken, the policy-makers demonstrated a belief in policies that maximised the freedom of the individual in the sense that they made available more choice in the form of better market information. In the end it was still the individual who had to take the final decision of what house to buy. Indeed, it is this freedom that was thought to be at the very basis of market mechanisms delivering socially acceptable outcomes (HC Deb 2005-06 449 col. 13WS: 180706).

Apart from ensuring a socially beneficial operationalisation of the market, this programme also made a moral statement about ownership as a form of accommodation (HC Deb 2005-06 445 col. 1678W: 030506). By deploring the apparently numerous cases where house transactions were unsuccessful and highlighting the acts of buying and selling property in positive terms, it promoted the naïve theory that ownership was a tenure whose entry barriers were still excessively high. Even if individuals had the financial means to access the market, limitations in the availability of information potentially hindered them to do so. Again, state interventions had to step in to make sure such additional barriers were minimised as they ran counter to the conception of home ownership as a moral end in itself. For home ownership, this meant that every step was taken to facilitate the entrance into this tenure (Ronald 2008, 48).

The HIPs initiative highlights another facet of the British individual-state relationship as far as home ownership is concerned, one of state action being needed to protect economic agency against certain malicious market processes such as gazumping (HC Deb 2000-01 359 col. 154W: 131200). Indeed, policy-makers expressed concerns about insufficient consumer protection in the British housing market that led to an excessive number of house purchases failing.

Research carried out in 1998 showed that 28% per cent of home sale transactions failed after terms have been agreed, costing buyers and sellers about £350 million each year in wasted expenditure. The Office of the Deputy Prime Minister expects home information packs to reduce significantly this

failure and waste. (Minister for Housing and Planning, K. Hill, Labour: HC Deb 2003-04 419 col. 1649W: 010404)

Earlier issues with insufficient protection of homebuyers through insurance cover and inspection service had been raised (HC Deb 1997-98 311 col. 10: 270498). There also seemed to be problems with communication between potential homebuyers and house builders (HC Deb 1997-98 298 col. 281: 170797) as well as with the powers of the building industry more generally (HC Deb 2001-02 383 col. 164W: 160402). Low quality standards were another topic that was raising complains at times (HC Deb 2003-04 418 col. 1754: 110304).

As the quote highlights, the main solutions adopted in regard to the concerns were the testing and subsequent introduction of HIPs. As a response to all the problems mentioned, the overall reply was to provide the consumer with more transparent information so they could enact his/her agency more fully. This was consistent with a logic of ‘self-help’ where state policy mediated between the market and its participants but was not formally interfering with its functioning mode (HC Deb 1999-20 347 col. 813: 040400), even though that depiction was more complex than the British state acknowledged. It was also in line with the document ‘The Key to Easier Home Buying and Selling’, published end of 1998 and focussing on the delivery of ownership through market mechanisms (HC Deb 2001-02 391 col. 290W: 221002). As such the British rationale for state intervention was very much based on the conceptions of the policy-makers that even though state intervention was needed, the market was the means to the end of home ownership, and that combined with an active, hence profit-seeking, definition of agency, such policies could be successful be legitimate the polity and the particular set of policies at the same time.

Again, the individual stood at the centre of the economy by using the abilities to make rational decisions and thus bringing about beneficial collective outcome, state interventions making sure that all market participants, individuals and companies, played according to ‘fair’ rules. The taken-for-granted-assumption behind such a conception was that consumer sovereignty was a necessary condition to ensure market processes were delivering socially acceptable ends such as high levels of home ownership. The axio-rationality was one where the individual engages in market mechanisms through a calculative approach. However, state policies were needed to referee and hence optimise the functioning of the market so as to guarantee the achievement of the end of mass home ownership.

(...) so that the information needed by buyers and sellers is available when the property is marketed, and abortive costs on the buyer are reduced (The Parliamentary Under-Secretary of State, T. McNulty, Labour: HC Deb 2002-03 402 col. 41WS: 310303)

Such comments underline the taken-for-granted beliefs in the rightfulness of market mechanisms. Indeed, the market *per se* was still thought to operate efficiently, just as individuals were, but because some actors were unable to access full information on the owned house they were acquiring, this lead to sub-optimal outcomes. Again, it was the role of state interventions to make sure that all relevant pieces of information were presented to market participants. An analysis of coordinative discourse highlights the tensions inherent in such assumptions as the principle of the rightfulness of markets and that of state interventions were coming together in a more

complex way than the state at times depicted it (HC Deb 2005-06 436 col. 288: 060705).

One issue however remains to be discussed in relation to the HIPs initiative, one that was typically related to the price mechanisms at work. Debates mentioned concerns that the introduction of the requirement to provide buyers with more information would present costs that would be added to the price of the property, the latter potentially having the effect to drive prices up, especially for first-time buyers (HC Deb 2005-06 449 col. 354: 190706). This demonstrated that state interventions, in terms of the facilitation of naïve theories and of material investments implied effects that potentially nullified some of the initial policy goals. Expert bodies like the Royal Institute of Chartered Surveyors then also warned against the introduction of such information packs (HC Deb 2006-07 464 col. 362: 101007). These critiques emerged when the contradictions with increasing asset prices were becoming progressively more visible as economic processes were elevating entry barriers, which ran counter to the very policy goals in the first place. In other words, the division between market participants and market outsiders had considerably different distributional effects upon these socio-economic groups. Again the uniting, and hence depoliticising discourse was attacked as the policy was attached to play into the hands of one group of individuals (home owners) against the interests of another portion of the population (potentially future home owners) (HC Deb 2001-02 378 col. 702W: 220102).

In the end, the argument dominated that HIPs were no element of extra cost but one that helped the market adjust to prices that reflected underlying evolutions. In this

sense, it was limited information that was seen as the main culprit of excessive house price increases, not the market as such.

No specific research has been commissioned on this, as there is no reason to believe that the introduction of home information packs will have a significant effect on house prices. The only new cost being imposed on the system overall is the cost of a home condition report in a proportion of transactions. Together with the rest of the information in the pack, this will help to ensure that house prices are set more realistically and buyers are not faced with unexpected repair bills and other commitments they cannot afford. (Y. Cooper, Labour: HC Deb 2005-06 440 col. 2823W: 201205)

Generally, in this relationship between the individual and state was lingering a certain ambiguity. On the one hand, the independent and entrepreneurial character of the subject was supposed to make market mechanisms lead to socially desirable outcomes. On the other hand, such agency needed to be supported and defended against malicious features of this very housing market. In other words, the individual-state relationship, as explained in the theoretical chapters, was itself a space that was filled with political tensions in terms of the exact rationale for state interventions into markets. On the one hand, the market was depicted as self-sufficient and independent entity, on the other hand it was also clear that the policy-makers were aware that policy interventions were necessary to uphold the direct kind individual-state relationship.

Indeed, state intervention then helped the individual enter the market, helped him/her play the market by guaranteeing his/her full agential capabilities against the market as well as by offering economic conditions that made such market participation

beneficial to the individual. What was curious was that at the same time that individuals and markets were considered to be sovereign and functioning on their own terms, the state was heavily involved in not only the management of market outcomes, but also in the making of the economic subject itself. The policy instruments clearly pointed towards a direct legitimization regime. In other words, the taken-for-granted assumptions of policy-makers lead them to think of the economy as the accumulation of individual, rational actors. It is on this basis that such beliefs limited the domain of appropriateness of policy instruments as explained in chapter four. As mentioned, the policies reviewed put forward ambivalent naïve theories in relation to economic subjectivities as they simultaneously tell stories of independent and responsible market actors and of the state helping these same individuals to play the market in order for it to produce socially legitimate outcomes. This is an example of how naïve theories can be conflicting in themselves. The denomination ‘naïve’ refers to this everyday and loose character of such explanations.

The political character of such an economic regime then played out on various levels. First of all, and I am falling back onto the denomination presented towards the end of chapter four, the facilitation of an active definition of economic agency marginalised conceptions of the individual as a much more passive actor in relation to housing, one that is much more concerned with the home at such, not with its marketised features such as its value. Second, such an understanding then entailed that only those agents following such a financially rational method were benefiting from house price inflation (Hay 2009) as they were playing the ownership market to their advantage. Third, this particular type of individual-state relationship was based upon specific readings of how a rationale for state intervention was supposed to act in relation to the

individual, in terms of the form and content of policy instruments. A direct focal point onto the individual as an economic agent not only set aside a more overall focus on societal groups but also acted upon the instrument selection. The latter fourthly created a set of policies that materially attributed resources to lower-income households and home owners and not those that had decided against following the type of axio-rationality facilitated.

As seen, the tendency of rising house prices was opening new issues for the British state. It seemed that it had been successful in the facilitation of conceptions of active economic agency as well as in feeding the market with favourable conditions in a way that still became problematic.

Do the Government have any plans to introduce legislation to help people who, having been encouraged to do so, buy properties--such as high-rise flats--and then discover that those properties are worthless? (D. Naysmith, Labour Co-operative: HC Deb 1998-1999 319 col. 732:171198)

4 Making Sense of House Price Trajectories

One of the most iconic instances to look into in order to understand the taken-for-granted conceptions of the state-market relationship and the naïve theories propagated in the housing market is how policy-makers were making sense of rising house prices. In other words, by investigating the explanations, and hence justifications, debated in parliament in relation to skyrocketing asset prices, this section analyses how the political tensions described above were managed once they became obvious. It is in these utterances that conceptions of the functioning of markets as well as of the

perceived role of the state become most obvious as differential understandings are discussed and discriminated against. This also relates back to the methodological issues mentioned in chapter four, especially those about the political aspects of coordinative discourse. Indeed, upward price evolutions were progressively undermining not only the effectiveness of housing investments at the lower end of the market but were also starting to be in conflict with the very naïve theories that had help generate them. As such, the growing concerns and measures to tackle affordability eroded the rationale of the economic man as a responsible and active economic subject as it became harder for individuals to enter the market in the first place. At the same time, there were doubts of how much longer such house price appreciation trends could be sustained that enabled individuals to play their agency in a way as to accumulate wealth on the back of those asset prices (HC Deb 2003-04 415 col. 34W: 091203).

When projected housing supply figures appeared in 1999, they were extensively discussed in parliament (HC Deb 1998-99 326 col. 419: 250299), and the tensions between the interests of current owners and non-owners came to light. Indeed, when already in 1998 the Office of National Statistics came up with a number of 4.4 million houses to be built between 1991 and 2016, the parliamentary reaction ran along the following lines.

If we build 4.4 million units of housing, they will be occupied sooner or later.

What about the effect on the housing market of all that building? Will it not erode the value of existing properties, again creating negative equity for some householders? (A. Steen, Conservative: HC Deb 1998-99 322 col. 280: 091298).

On the one hand, only more extensive supply initiatives could address the policy aim to extend home ownership towards lower-income individuals. On the other hand, such interventions into market mechanisms would potentially undermine the very price dynamics that enabled current owners to act according to the facilitated theories of active market subjects. Indeed, the price dynamics were central to housing debates, again underlining how essential price evolutions were for the state interventions to be successful. This situation was then an outcome consistent with the general tendency to invest extensive sums into the lower end of the housing market, as seen above (HC Deb 1997-98 303 col. 159: 161297). As such, state interventions that had acted in the name of the economic agent as such, on the premise to allow every member of society to benefit from rising asset prices, they themselves had contributed to conditions that were deeply political and problematic now.

Under such conditions, the two roles attributed to the state as a market-enabler and a market-optimiser came to represent conflicting positions. The function of policy to create the conditions for further influx into the home ownership market was becoming contradictory to attempts to protect owners from mechanisms that would diminish their equity (HC Deb 2003-04 418 col. 1754: 110304). On the one hand, asset price appreciation was a by-product of state programmes and investments as they pumped funds into the lower end of the ownership market. By giving a growing part of the population the opportunity to enter the market, policy-makers had tried to engineer socially beneficial results through market mediations. On the other hand, these efforts had to be accompanied with supply-side policies as far as affordable housing went (HC Deb 2005-06 436 col. 289: 060705). However, such interventions were running contrary to the state's function of protecting market participants from potentially

detrimental evolutions as more houses on the market also constituted a risk to the equity of existing home owners. As simultaneously upholding both conceptions became incrementally more complicated while prices went upwards, it is of special interest to investigate the meanings conferred by policy-makers to them¹¹.

The reaction of policy-makers was to follow the existing logic of state intervention, and as such higher asset prices entailed even more extensive funding efforts towards the individuals excluded from the ownership market (HC Deb 2006-07 458 col. 85W: 280307). The policies thus persisted in ensuring the conditions upon which a majority of individuals could access home ownership. Even though the affordability issue became more prevalent with time (HC Deb 2002-03 407 col. 141W: 190603), free and active individual agency combined with the state granting favourable economic conditions were still believed to be the key to maximising not only individual wealth. Against the fact that the policies became harder to legitimise over time as the entry barriers into the market began to raise, their underlying rationale was pursued. No regulatory interventions into the market were undertaken as they would have undermined the very belief in the rightfulness of market outcomes, themselves the result of individual action (HC Deb 2006-07 457 col. 465W: 190207).

At the beginning of 2005 then, the British policy-makers addressed the growing affordability problem and launched ‘Sustainable Communities: Homes for All’ (HM Government 2005). It was an attempt to solve the affordability gap that was debated at the time in relation to first-time buyers (HC Deb 2003-04 420 col. 1481W: 040504)

¹¹ The thesis does not claim that state interventions had direct influence over asset prices, but it does argue that they (more or less advertently) instilled particular understandings of home owners that contributed to particular price evolutions.

through added supply. Even though the document talked about choice and social housing and about those excluded from the ownership market, the main focus lays with the ownership market. Indeed, Homebuy initiatives were mostly stressed when social tenures were mentioned (HC Deb 2006-07 455 col. 366W: 080107). Also, the extensive attention given to first-time buyers underlined that ownership was still seen as the tenure that most individuals should be able to access, possibly through state aids. Apart from the language used, the policy content demonstrated that British policy-makers saw their previous efforts in a positive light, interpreting further interventions as additional fixtures. In other words, they stood by their conceptions and rationales for the state policies undertaken.

At the same time however, the tensions between ownership market participants and those at the edge of it also became more visible as the rationale for state intervention still played into both hands of enabling individuals become active home owner and of guaranteeing asset accumulation for those already in the market.

We are increasing the supply of housing in a responsible way, and offering thousands of tenants the chance to buy a stake in their home – narrowing the wealth gap between those with housing assets and those without. (HM Government 2005, p.2)

It offers people opportunity and choice – to own their home, to meet their aspirations and to build up assets:

- Helping 80,000 first time buyers, in part by making better use of vacant public land to provide new housing, and driving down building costs

- A new Homebuy scheme to offer up to around 300,000 council and housing association tenants the chance to buy a stake in their home. (HM Government 2005, p.3)

In other words, the phrase ‘Homes for All’ indicated that policy-makers took little issue with the contradictory elements of British housing policies as they stuck to the democratisation of home ownership that was hiding the deeply political tensions highlighted here. By emphasising the benefits to all individuals in society, the focus was on national unity, coupled with an extensive funding programme to cover up the tensions that such initiatives only deepened. Indeed, the reactions went on to emphasise the same developments that it was supposed to be addressed (HC Deb 2004-05 431 col. 641W: 230205). As has been seen, heavy investments at the lower end of the home ownership market was exactly what was partly responsible for the price tendencies that later policies tried to tackle, the affordability gap being the main issue here.

In terms of economic subjectivities, housing policies depicted a logic of individual choice and hence responsibility. Once again, the problem with affordability was that it limited the capacity of potential home owners to act as active market participants (HC Deb 2006-07 455 col. 1349W: 190107). Through investments, state policies acted against this, in a way as to enable more individuals to access ownership and accumulate wealth on the back to upward price dynamics. The rationale was again that once individuals were able to access the market, they could use their rational utility-maximising capacities to improve their economic situation. This then supports the claim that the naïve theories promoted had the rightfulness of the market at their

centre. At the same time, it was still the individual per se who needed to engage with market processes in order to ‘help him/herself’, the individual hence being at the core of British housing policy. As such, it is also easy to see how much such an economic regimes was relying on proper individual market behaviour, proper in the sense of reproducing the active and profit-seeking definition of economic agency. Thus, even though the policy-makers reacted to the affordability issues, that was not a reason to relativise or even revise its policies at bringing more people into the ownership market through investments and liberal conceptions of agency. The direct individual-state relationship in terms of legitimation was holding.

The Government expect one million people to enter home-ownership over the next five years. This is based upon analysis of recent trends in house-building and new owner-occupiers. It also takes into account the impact that the domestic economic stability delivered by the Government's macroeconomic framework will have had on numbers entering into home ownership. (Minister of State for Local Government, J. Healey, Labour: HC Deb 2005-06 435 col. 1548W: 290605)

There were voices in parliament concerned with skyrocketing house prices (HC Deb 1999-00 346 col. 640W: 230300; HC Deb 2003-04 423 col. 458WH: 140704). However, various justificatory narratives were adopted to legitimate the persistence with the policy approach and with the naïve theories facilitated in relation to the ownership market and economic subjects. First policy-makers doubted the figures presented and rejected their technical accuracy (HC Deb 2002-03 397 col. 164W: 070103). They hence side-lined the voice of expert groups in favour of it being directly accountable towards the individual voter. As the relationship between the

individual and the state was direct, it was possible for policy-makers to disregard the numbers presented by the major mortgage providers and the Land Registry on relatively easy grounds. Again, this can be taken as evidence for the state actors being deeply convinced by the approach to the housing market and the affordability issue more specifically. At the same time however, negating the correctness of house prices provided by expert groups laid bare the degree of sensitivity that such prices presented. Denying them was indicative of policy-makers being unwilling to engage in a critical assessment of the policy framework. At the same time, it was an equally clear side-lining of alternative approaches to the management of the affordability issue and the home ownership market more generally. As such, this rejection is political as it does violence to different naïve theories of how to interpret the economic ‘collective man’ and markets alike.

Ironically then, state organs ordered an expert review into the housing supply mechanisms (HM Treasury 2004; HC Deb 2003-04 415 col. 949W: 171203). In one sense, this presents a position in contradiction to the earlier rejection of expert knowledge. The logic with the former was that

(t)here is a bizarre aspect to housing in this country. We have high house prices, but often the market does not respond to them quickly by producing new houses. (Liberal Democrat Shadow of the Office of the Deputy Prime Minister, E. Davey, Liberal Democrat: HC Deb 2003-04 415 col. 34W: 091203).

Stated differently, the housing market was seen as not adjusting as the state actors had predicted in order to bring prices down, or in economic terms, prices were not fluctuating back to their long-term equilibrium level, they were ‘downward sticky’

(HC Deb 2005-06 435 col. 341W: 140605). Policy-makers then relied on the experience of an acclaimed economist to gain insight into these unusual market mechanisms. It was only once policy-makers had run out of explanations of how to make sense of the developments in the ownership market that external assistance was sought. The logic then was that aid was needed in order to explain to the everyday subject why its definition and conception of markets was not playing out in practice. In a sense then, the fall backing on extra-state knowledge demonstrated not only the inability of the actors internal to the decision-making process to make sense of market outcomes (as with the instance when it denied the significance of statistical figures), but also the deep belief in the naïve theories it had been advocated.

Indeed, if micro-behaviour entailed desirable market outcomes, if state interventions had optimised agency to be as rational as possible and minimised unfair market behaviour, and that market processes in themselves could not be blamed by definition, then extreme house price were hard to be attributed (HC Deb 2006-07 457 col. 465W: 190207). This insight was proof that in general British housing policy was consistent with neo-classical beliefs in the self-equilibrating mechanisms of markets. Just as with the information issue in the HIPs programme, state policies were enquiring into the nature of sub-optimal market outcome. Indeed, the Barker report advised to massively invest into social housing (HC Deb 2006-07 457 col. 463W: 190207). It hence advocated an even stronger market intervention into apparently independent market processes, even if the market of social housing was supposed to act against the price tendencies in the ownership market. What is important is that it appears as if the belief in the rightfulness of markets was unbroken. The recommendations were

largely followed hence further promoting the active and sovereign definition of market participants.

The reluctance of the British policy-makers to change course can partly be explained by the setup of the individual-state relationship as explained in the theoretical chapters. As the legitimization regime was direct and that the policies were focussed on the individual as to ensure the well-being of the general public, it became progressively harder to take actions inconsistent with the conceptions of market rightfulness and consumer sovereignty. Falling back on the insights of the literature on constructivist institutionalism, I argue that the particular sets of background ideational abilities (Schmidt 2008a, 303), or taken-for-granted conceptions to refer the literature on the sociology of policy instruments (Hussein and Le Galès 2010), excluded a change in the rationale for state intervention as it was regarded as inconsistent in theory and in time. In other words, such a U-turn would have equalled a public acknowledgment that the naïve theories facilitated beforehand were dysfunctional. Once the state policies had put extensive discursive and material efforts into pointing out the benefits of such a policy setup, a change would have been politically inconsistent. Even though prices were acknowledged to be high, that was not to imply that such an evolution was problematic.

A discussion regarding the long-run house price to earnings ratio can be found in paragraph A76 of the 2004 pre-Budget report (Cm 6408). This included the statement that, "The consensus view is that house prices exceed sustainable levels, though there is a wide range of opinion on the extent of disequilibrium. However, the common method of assessing this by comparing the current ratio

of house prices to earnings (or some wider measure of income) with its long-run average can be highly misleading. There is no economic law to dictate that this ratio must revert to some constant level over the long term." (Financial Secretary to the Treasury, J. Healey, Labour: HC Deb 2005-06 435 col. 341W: 140605)

This was also why policy-makers later still interpreted those trajectories as indicators of the success of its macro-economic policy as it was delivering wealth to the majority of the population as the statement below highlights. The following quote is an illustration of post-hoc legitimization of house price trajectories that summarises some of the central elements in the market subjectivities that the state policies had been facilitating. At the same time, it demonstrates that legitimization was achieved by policy-makers explaining to other members of parliament how the individual was benefitting from state interventions.

The Government's macroeconomic framework has delivered stability and rising prosperity. More people have had the confidence to become home owners, with around 1.8 million more home owners since 1997. (Financial Secretary to the Treasury, J. Healey, Labour: HC Deb 2006-07 457 col. 463W: 190207)

What could potentially be detrimental in more people being able to afford their own home? In the end then, the British state paid more attention to the short-term effect of its policies, which were overly successful in that regard, but neglected longer-term (Watson 2011a) issues with economic macro-stability.

5 Conclusion

This chapter has first exemplified how an ontology focusing on concrete individual-state relationships can set the focus on the multiplicity of political elements in a certain economic regime. By focussing not only on state activity per se, but by linking a particular rationale for state action with the definition of the ‘collective man’, the chapter had demonstrated an additional layer of investigation when it comes to studies of comparative capitalisms and pointed to the deeply political aspects of state policies in relation to naïve theories. Throughout this exposition, the main issue was to carve out how state actors were legitimising certain policies and which assumptions such initiatives were making in relation to understandings of the ‘economic man’. As such, it has empirically shown that such a focus is able to bring about a reading of markets, of economic agency, and of the perceived roles of the state that are context-specific. Such an approach that is heavily based in a constructivist account of the human being hence adds a perspective that complements the productionist focus that VoC tends to follow (Campbell 2005, 7; Hancké et al. 2007, 7) as it opens the analysis to issues of the private individual and of consumption.

In other words, before presenting a meaningful explanation of the social mechanisms and interconnections that have led to specific historical economic outcomes, a study of the naïve theories of basic economic notions held by policy-makers, revealed through parliamentary discussions and facilitated through state policies is beneficial. Instead of taking the concepts of the state, the economic agent and the market for granted and hence as universally constant, this exposition has demonstrated that all of these notions are themselves social constructions (Woll 2008, 10) which are subject to political struggles. This is exactly what the ontological aspects of the political in

chapter four were referring to, that the definition of the terms used in the policy-arena are themselves already imprinted with political features, either as limiting the choice of policy instruments or as narrowing down the understanding of economic realities from an everyday point of view (Jabko 2006, 32). This chapter has showcased that once the comparative scholar takes a step back and allows for variation in the meanings of economic concepts themselves, as understood by the actors analysed, the focus of the political shift towards the process of the meaningful (re)production of these notions, that in a second stage in distributional terms. As a further example that is historically documented (Terrance 2010) is the case of the concept of ‘property-owning democracy’ as referred to before, as it represents a notion that cannot be taken as universal in space and time. Indeed, various policy-actors have loaded the concept with different meanings, in relation to the term itself but also as far as the legitimization of it goes with respect to a particular individual-state relationship. This chapter is the first one here to replicate such an analysis for the understandings of economic notions in relation to home ownership issues.

In relation to the literatures reviewed, such an approach is novel as it goes beyond ‘bringing the state back in’ (Schmidt 2009b; see also Skocpol 1979; Evans et al. 1985). Indeed, such an approach as exemplified here gives room to the data of the case-study itself to define what such a concept is supposed to mean, especially in relation to the economic agent. Through such a perspective, the very domain of the establishing or institutional reproduction of the notions of ‘the state’, ‘the market’ and ‘the economic agent’ is seen itself through a political lens, the lens of naïve theories. It is this epistemological break that introduces the additional political features that the

theoretical chapters have been alluding to. It is only once the more specific meanings of how the state and the individual come together in a marketplace have been grasped, that is it possible to give detailed insights into the processes entailing certain outcomes. It is not only the latter that are political in distributional terms, but the very subjectivities that allow results to come about must be seen as political as well. Indeed, these conceptions are at the centre of what is possible to get transposed into policies and hence facilitated in relation to the individual.

In relation to this case more particularly, the illustrations here have demonstrated the ambivalent nature of the British state interventions into the economy, but also upon the understandings of economic notions by its citizens. Even though policy-makers saw the state as an actor that enabled individual agents to play out their agency as ownership market participants, state policies were simultaneously supposed to fulfil the role of the protector of this active kind of economic agent in order for market processes to imply socially legitimate outcomes. The tensions in the policies indicate the political characteristics of state interventions, i.e. their inability to produce the same degree of benefits to all members in society. In addition to previous treatments of the state in the comparative literature, I argue that such a perspective is better suited to investigate national economies and to understand specific policy issues in a more genuine way as the very content of economic notions is given by the case itself, not imposed by the scholar. Whereas the Hall and Soskice piece does not offer any discussion on the context-specific meaning of the notions it uses (Hall and Soskice 2001) and instead quietly opts for the rational-choice definitions (Hay 2005, quoted in Clift 2012), the comparative capitalisms literature offers little debate on the subject (again see Clift 2012 as an exception).

To come back to the example referred to in the literature review, Jackson and Deeg do not allow for the economic concepts to take on different meanings that could themselves hide political features. I copy in the extract again.

State action is also a deciding factor in explaining the different trajectories of change of otherwise seemingly similar types of national models. (...) compare Denmark and Germany (...) which nevertheless followed markedly dissimilar paths of change since the early 1990s. This is attributed largely to the differing roles of the state. In Denmark, a large state (...) provides state actors with both an incentive and the capacity to sustain macro-level corporatist bargaining. Public sector workers find a strategic political ally among low wage workers and together are powerful enough to induce workers and employers in the export sectors to sustain national bargaining. (...) In Germany, a much smaller state with less capacity could not sustain macro-level corporatism under similar conditions, and German firms maintain institutions of coordinated capitalism mostly for the manufacturing sector. (Jackson and Deeg 2008a, 699-700)

Indeed, the state is seen as an entity as such whose meaning is independent upon the German or Danish context. Whereas the scholar allow for a quantitative difference in the size of the state, they do not account for the possibility of 'the state' to take on qualitatively different meanings for German and Danish policy-makers and final consumers.

To sum up the findings, the British analysis has highlighted how home ownership policies have conveyed an economic understanding of the state helping individuals

play the market in order to gain financial benefits (Crouch 2009). Policy-makers positioned the state as a benevolent actor on the side of the individual by enabling him/her to access markets and by securing socially legitimate outcomes through market mechanisms seen as financial opportunities. Home ownership was conceived a quasi-universal right that an ever larger share of the population should aspire to (Whitehead 2012, 108). Policies were legitimated as they guaranteed the micro-economic conditions upon which sovereign market participants could then accumulate wealth. The naïve theories facilitated assumed markets that, once made accessible by state policies, allowed individuals to personally benefit from price trajectories. The directness of the individual-state relationship has not only entailed policy instruments focussed on the immediate wealth effect of individual agents, but has also contributed to the persistence in readings of self-adjusting markets and active utility-maximising agents.

The British set of state policies in respect to the ownership market then put forward both free market principles and those of state intervention (Lund 1996: 179; see Polanyi 1957, 76). On the one hand individuals are meant to take initiative and act as free agents in a market where offer and demand alone ought to determine prices and hence the allocation of housing. On the other hand, state programmes had to fulfil functions in relation to this very market and the economic agent alike. On the one hand, state initiatives were open about their desire to offer easier access to the ownership market by investing considerable amount of public money into its lower end. The whole rationale of affordability assumes that policy-makers have a duty to bring people into this particular market. On the other hand, interventions also had to ensure that the market itself was able to operate accordingly. Legislation had to be

adopted to exclude unfair practices and the information had to be disclosed that would otherwise not have been. One intermediary conclusion to draw here is that markets ought to be seen as complex loci of interplay between the state and the individual, and not so much as institutions on their own terms. Such a statement follows the comments above in relation to the benefits of a constructivist approach to economic regimes. Market outcomes ultimately depend to a large extent upon specific state interventions, into the market themselves and upon the naïve theories of its participants as consumers in this case.

Now that the housing market has been explored, the attention shifts to the social processes that enabled individuals to actually buy property and access the market. The notion of affordability is indeed closely linked to the amount of sources the individual can fall back upon when engaging with market practices. I thus analyse how conceptions that the rationale for state intervention were facilitating in relation to proper financial micro-management behaviour, as well as with regard to the understandings of mortgage markets on their own. I can take as a hypothesis that the same conceptions of agency hold in other domains that are embedded into similar socio-economic contexts as far as taken-for-granted conceptions and naïve theories go.

Chapter 6: Naïve Theories of the British Mortgage Market

1 Introduction

The previous chapter has empirically highlighted which subjectivities were promoted in the British home ownership market and which political implications such naïve theories had in economic and political terms. At the same time it has shed light onto the nature of the British individual-state relationship. It has also underlined the dual role of the state policy in helping individuals access the home ownership market, and in protecting the wealth that these same individuals had been able to accumulate on the back of rising asset prices. These objectives have become progressively harder to reconcile to a point where skyrocketing house prices have been interpreted as good market governance and where additional resources were needed to sustain the stream of new market entrants and hence the price levels observed. The chapter has also shown how an active type of economic agency was depicted through the material legislations and the coordinative discourse. This conception of the ‘economic man’ was seen as sufficient to ensure socially acceptable economic outcomes as markets were seen as adjusting in an unhampered fashion. In other words, apart from certain naïve theories, hence everyday understandings about the market participant, state policies also facilitated specific notions of how the market operated, and what ends they were to serve.

These findings follow from the theoretical developments in chapters three and four, themselves being a reply to the literature review offered in chapter two. This chapter then aligns itself in the argumentation of the thesis as it applies the suggested framework to a field that is closely linked to the definition of the economic subject (Rose 1999; Bröckling 2007) as well as to the housing market: financial markets. As

the mortgage market constitutes another market in which potential home owners operate, the latter is analysed according to the suggested framework (Miles and Pillonca 2008). As highlighted, as the social-political context i.e. the policy, is similar to the one for the home ownership market, the hypothesis stands that the findings here about the definition of economic agency, the market and the roles of the state are in line with the ones in the previous chapter.

As the purchase of an owned house constitutes a considerable financial burden, pecuniary aspects play an essential part in relation to the housing market (Hardt 2003). These elements have been set aside so far as they are treated in a separate chapter here. Once the theoretical parts of the thesis has proposed the human individual as being fundamentally characterised through its state of under-determination, it follows that an analysis of the depiction of the economic agent with regards to housing ought to be accompanied by an investigation into the naïve theories of the financial features of such an ideal-typical agent. Indeed, the individual that engages in the housing market is very likely also to enter into contact with financial products that enable the purchase of an owned home (Stephens 2007). The current chapter figures as a necessary addition to the last one as it raises the same questions more specifically for the monetary side of how individuals were supposed to act in their quality as home owners described beforehand (1997-2007). These explorations are meant to add further insight into the ways that British policy-makers depicted the individual-state relationships in relation to the market, but also to illuminate how central the financial elements have been in this regard. An analysis of the financial aspects of the aforementioned rationale for state intervention is then suggested here.

It is important to remember that such concerns can be more or less relevant according to the economic and social definition of home ownership in the first place (politics of naïve theories (1) and (2)) and the legitimation regime of the state polity (3) and public policies (4)¹². In the context of the starting point of human indeterminacy, the very finding that monetary aspects are seen as crucial in relation to housing market is to suggest a specific context-specific reading of the latter. The (coordinative) discourse around the relationship between the home ownership and the mortgage market then becomes political as such efforts facilitate certain naïve theories and sideline others. Such naïve theories are concerned not only with how these markets relate to each other, but also how the economic agent is supposed to make sense of them, separately and jointly. These understandings per se are political as they do violence to alternative conceptions of the economic phenomena involved (1) and entail different distribution effects (2).

As such, the underlying legitimation practices, of the policies and the polity alike, are investigated. In order to do so, the individual-state relationship is positioned at the centre of the investigative efforts. Indeed, it is the latter that is essential in answering the questions about the political features of the financial agent in this thesis. From the very start I have argued that the current stream of studies into varieties of capitalist regimes lacks a comprehensive conceptualisation of the variety of definitions that the individual can potentially take on, and hence tends to offer a context-independent definition of the state (Bevir et al. 2003). It is thus the logical consequence when looking into the housing policies that the argument also sheds light into the

¹² See table towards the end of chapter four.

differential setups of individual-state relationships in the British (and German) context as far as financial conceptions go. As such, this chapter makes the same double contribution as the previous one. First it pushes forward the argument in relation to the literature critiqued beforehand and commenced in the last chapter in terms of applying the theoretical framework to an empirical case. Second, it also relates to the literature of comparative capitalisms as it adds another layer of the political as it points to the politics of the everyday understandings of economic concepts, such as ‘the mortgage’, ‘the mortgage market’, ‘saving’. It does so through an individual-state perspective that is concerned with consumer issues, hence that is not merely interested in the production side of economic diversity.

As regards the structure, the chapter is built in three parts. After this introduction, I first offer an overview of the key financial programmes that British state policies have introduced in the period under investigation (1997-2007). At the same time as it shortly describes their functioning I highlight the arguments mobilised in their support and the links that were drawn by policy-makers with the housing market in order to facilitate certain sets of naïve theories. Macro-economic framing techniques are often found here, something that has been less pronounced for the policies more directly related to home ownership. The subsequent section puts the individual-state relationship at the centre and investigates the moral assumptions about economic agency that the programmes came with. It also explores how coordinative discourse depicted the state as an intermediary between the individual and market mechanisms in order to achieve socially accepted outcomes. The topic of regulation is brought up in this regard as it highlights some of the tensions with market governance mechanisms. Subsequently, the argument moves on to the exact relationship between

these financial features and the housing market. I investigate how financial markets were seen to fit into the larger picture of asset accumulation through the housing market. The macro-economic implications of such subjectivities are also explored. Tensions between flexible and the fixed rate mortgage products are especially interesting as they bring out the contradictions that were arising between two different functions the rationale for state intervention had been set up for. The conclusion sums up the main findings for the case of British state interventions into financial markets in relation to housing.

An identical methodology as for the previous chapter is operationalised. Again, parliamentary debates are explored to shed light not only onto the policy initiatives in their own right but also onto the legitimisation context justifying the form and content of the policies enacted. Again the software packages Nvivo 8 and 9 have been made use of to filter through the relevant policy utterances that relate to the financial aspects of housing markets such as savings programmes and discussions about product mis-selling.

2 Financial Programmes and Macro-Economic Concerns

In British politics, it was openly acknowledged that the financial side of the housing market in its form of mortgages was essential. The amount of references to this topic in this section is an indication for such a statement. Financial choices and those made in the housing market were closely knit together at the individual level, hence

demonstrating the relevance of an analysis of the mortgage market in relation to that of housing.

A mortgage is the biggest single financial commitment in most people's lives.

For most of the British people, more of their money is wrapped up in mortgages than in anything else. Ours is a country with a high percentage of

home ownership. (B. Blizzard, Labour: HC Deb 1998-99 329 col. 460: 150499)

As the previous chapter has shown, the very framing of the housing market as being characterised by an affordability issue was an indication of the centrality of financial dimension of the latter. This chapter is especially useful in analysing this relationship under a constructivist perspective. To start with, it is important to note that such conceptions implied a discourse in which the financial aspects dominated the material qualities of the properties traded. Indeed, financial connotations were vastly present in parliamentary discussions about the housing market. The quotes selected in this chapter only underline this fact. This in itself is a finding worth reporting, and one that is picked up upon when comparing the British regime to the German case. As such, such a strong linkage is political as it marginalises conceptions of mortgages for their own ends, not as a means to feed the housing market.

This then also suggests that the home owner was not only regarded as an agent in the housing market, but one that was looking to maximise his/her wealth by falling back of various financial products in the parallel mortgage market.

That is even more the case when they realise that the value of their house has increased substantially since they bought it, perhaps only a short time ago. In those circumstances, people will inevitably get into personal debt that they can manage. (T. Harris, Labour: HC Deb 2003-04 423 col. 632: 050704)

Individuals are depicted as making active use of the conditions in the mortgage market to bring assets into the home ownership market (Ertürk et al. 2005). In other words, differentials in returns between both markets were considered as opportunities for households to accumulate wealth (Longley et al. 1991). The very different social natures of these markets became insignificant in such a context as the central aim was to acquire equity in one place and get a return higher than the servicing costs in another. This was nothing else than asking individuals to make rational decisions as investors (Watson 2010). The target of such policies were individuals in their capacity as utility-maximisers who exploit the potential for financial enrichment. As such it played into the hands of those households that were comfortable with such an active definition of economic agency, in other words that followed the financial literacy programmes enacted (Finlayson 2009). At the same time, the issue of debt was also a constitutive element in the relationship between the mortgage and housing market as becomes clear shortly (Burrows 1998). Indeed, specific conceptions of economic agency and personal debt were set in various savings programmes.

Indeed, in 1998 the government launched the ‘Individual Savings Account’ (ISA), a scheme that was replacing two previous saving initiatives (TESSAa and PEPs; HC Deb 1997-98 306 col. 33: 090298). The rationale of such state intervention was to “develop and extend the savings habit” (HC Deb 1997-98 314 col. 614: 250698; Watson 2008a). But contrary to the efforts in the housing market, macro-economic issues played a much more considerable role with the savings policies.

The personal sector saving ratio was 11 percent in 1997. A modest cyclical fall in the saving ratio is expected over the next three years. But over the longer term the introduction of ISAa and policies to promote economic growth

and stability will increase the incentive to save for investment (H. Liddell, Labour: HC Deb 1997-98 310 col. 697: 230498).

More generally, the introduction of ISAs was preceded by a debate around the saving ratio of British individuals. Even against concerns of the costs of the scheme (HC Deb 1998-99 329 col. 467:150499), it was defended on grounds that

(T)he Government are aiming to promote economic stability and part of this strategy is to avoid large cyclical swings in the saving ratio such as those seen in the late 1980s and early 1990s (P. Hewitt, Labour: HC Deb 1998-99 326 col. 862: 040399).

There was indeed a string of concerns to “avoid periods of boom and bust” (HC Deb 1997-98 306 col. 892: 170298; Clift and Tomlinson 2007) through the promotion of a ‘savings culture’ (Chief Secretary to the Treasury, A. Darling, Labour: HC Deb 1997-98 308 col. 209: 110398). The key variable held responsible for the volatility of the British economic performance were private savings. Such a conception was consistent with a strong focus on individual behaviour as determining the overall socio-economic outcome, hence affirming the hypothesis in relation to the similarity between the policies in the housing and the mortgage market, pointing to the topical consistency of the rationale for state intervention. As developed in the previous chapter, the British policy-makers conceived of markets as of the summation of individual agents only. The assumption was that once the economic agent could be incentivised to save a more considerable part of his/her income, boom and bust could be made a concept of the past.

However, and this was also in line with the British perception of the market, the state interventions had to play their part in facilitating such patterns of behaviour in the first place. The institution of the state was again perceived by policy-makers as a market enabler in this instance, hence legitimating the individual-state setting through the offering of financial opportunities. ISAs were judged to be only one part of these efforts among the “tough decisions necessary to create a climate of low inflation” (Economic Secretary to the Treasury, P. Hewitt, Labour: HC Deb 1998-99 329 col. 362:150499). The state policies were to help the individual save by engineering beneficial macro-economic conditions that allowed for such behaviour. Just as with the case of the housing market where policy-makers also adopted a discourse of ‘helping’ people into the market, so they had to “encourage people to save more” (HC Deb 1998-99 329 col. 363:150499) by falling back on economic policies that would render saving financially more viable.

Apart from the ISA initiative, the other main savings programmes were the Savings Gateway (Collard and McKay 2006) and the Child Trust Fund (Finlayson 2011). In 2001 both of these initiatives were presented in ‘Delivering Saving and Assets’ (HC Deb 2001-02 386 col. 664W: 240502). The focus on the first scheme was that low-income savers were “able to access to their financial assets in order to meet unexpected needs” (R. Kelly, Labour: HC Deb 2001-02 386 col. 664W: 240502). Therefore, the formula of a cash-based account was put forward to ensure that the savings were liquid and could easily be fallen back upon ‘without restriction’ (R. Kelly, Labour: HC Deb 2001-02 386 col. 664W: 240502). The state policy supported such making use of savings through a ‘matched contribution’. The Child Trust Fund was more specifically addressed at “children from the poorest families” that received

an initial endowment of up to £500 (Ruth Kelly, Labour: HC Deb 2002-03 404 col. 798W: 080503; see also HC Deb 1997-98 318 col. 614: 041198).

There thus existed policies to educate¹³ the individual into his/her role as active economic agent, one that is independent and takes opportunities throughout life through the management of private finances (HC Deb 2002-03 401 col. 131W: 110303). These savings policies were regarded by policy-makers as “empowering individuals with financial information” (HC Deb 2002-03 404 col. 798W: 080503, Ruth Kelly), again very much in line with the findings of the previous chapter. What is important at this stage of the argument is that initiatives were taken to raise the saving ratio among the population, especially within the lower-income groups, as a means to prevent economic instability. Even though the focus was on macro-economic stability, the legitimization regime was still direct as the individual was also presented as being the beneficiary of such saving efforts as they enabled him/her to be ‘empowered’ as an economic agent.

Indeed, even though such efforts had been engineered for macro-economic reasons, they were also thought to provide “individuals with security, opportunity and independence throughout life” (R. Kelly, Labour: HC Deb 2003-04 424 col. 1199W: 070904), pointing towards the directness of the legitimization regime and the individual-state relationship. Actually, the latter entailed the first. As the individual was regarded as the central element in the economy, micro-behaviour was perceived to constitute the means to end boom and bust (HC Deb 1997-98 306 col. 892: 170298). In terms of policy instruments, the economic agent per se was targeted as

¹³ Compare with the Gramsci quote in chapter one, section two.

macro-economic change could only happen when its constitutive parts were behaving differently. Just as for housing policies, policy-makers saw economic outcomes as nothing more than the cumulation of individual decisions. The coordinative discourse of empowerment was indicative of a particular kind of individual-state relationship. State policies addressed the individual directly as crucial units of the British economic regime, pointing toward the direct nature of its legitimation setting (Lister 2003). Not only did the mass of the people carry such an essential significance for economic success, but it also constituted the channel through which economic policy was to be enacted. In other words, micro-economic concerns were always functional for the attainment of macro-economic rationales in the British context.

As mentioned, in the ISA programme personal debt was depicted as to be avoided, or at least as only acceptable if savings were existent as well. Indeed, such was the moral basis behind the legitimating rationale for increasing the saving ratio. As negative equity was seen as a possible source for macro-economic instability, savings were incentivised. After the millennium however, the coordinative discourse about such a reading of indebtedness slowly vanished in favour of a much more positive interpretation of debt (Chief Secretary to the Treasury, A. Smith, Labour: HC Deb 2000-01 361 col. 1070: 250101).

Surely that is not a problem, provided that people can finance their debt (K. Hopkins, Labour: HC Deb 2003-04 423 col. 607: 050704)

I agree that a given amount of debt is not a problem for those who can easily manage it. (O. Letwin, Conservatives: HC Deb 2003-04 423 col. 607: 050704)

It appears that people are capable of dealing with such debt and spreading it out. (V. Baird, Labour: HC Deb 2003-04 423 col. 608: 050704)

At the same time, the Chief Secretary to the Treasury concluded that “most household debt remains affordable”, still simultaneously rejecting “the boom and bust economic policies of the past” (Chief Secretary to the Treasury, P. Boateng, Labour: HC Deb 2003-04 423 col. 619: 050704). In a context of rising house prices, the initial worries with low saving ratio were said to have been exaggerated in 2004. In 2007, the Chancellor of the Exchequer voiced a similar position.

With debt repayments as a proportion of income at 8.9 per cent, in contrast to 15 percent at the peak in 1990, the International Monetary Fund and the Bank of England have both said that the impact on macro-economic policy is small (Chancellor of the Exchequer, G. Brown, Labour: HC Deb 2006-07 455 col. 1533: 250107)

The reason for such a turn in the interpretation of the savings issue laid in the economic the policy-making that had been successful in creating conditions under which low savings did not constitute a concern worth addressing as house prices were pushing individual equity upwards. This matches the later interpretations of house price inflation as the reflection of good economic governance, as well as affirming the hypothesis about the similarity of the definition of market mechanisms as seen in the previous chapter.

Whereas low savings were first seen by policy-makers as a potential cause for instability, later on the same figures were reinterpreted as being in line with the historical trend. This is a good example of how the same concepts cannot not only take on different meanings in different polities, but also that such conceptions of economic notion can change over time within the same institutional setting.

I refer them to an analysis of the savings ratio carried out by the Bank of England, which concluded that, when inflation is taken into account, the savings ratio since 1998 is significantly higher than the average over the previous 40 years. (Financial Secretary to the Treasury, R. Kelly, Labour: HC Deb 2003-04 423 col. 648: 050704)

Even though state policies had previously pushed forward the ‘savings habit’, similarly low numbers were now regarded as indicators of successful economic management of the mortgage market, and of the health of the economic regime more broadly.

Whereas before the causal mechanism was running from the individual to the economy, this logic was now reversed. As the savings programmes had outlined before, policy-makers had considered prudential private savings to be the basis of a stable economy (Ertürk et al. 2005). Now however, the latter was seen to open opportunities for the individual to use his/her resources in ways that were perceived to be more efficient than saving. It was because state interventions had successfully produced a context of beneficial economic conditions that people were so confident with their futures and were keen to maximise the opportunities that such conditions offered. Again, this replicates a very similar interpretation to that one adopted in relation to house price trajectories.

In this sense, the House of Commons declared

that a strong and stable economy is the foundation of families' confidence in their own finances; notes that economic stability has delivered low and stable inflation, interest rates have been at their lowest since the 1950s (...), further

notes that as a result households are better able to judge their long-term commitments as macroeconomic stability has reduced the risks to household finances of sudden and sharp rises in interest rates as seen in the past; (...) allowing people to save with confidence (...). (HC Deb 2003-04 423 col. 651: 050704)

In other words, in a context of low inflation and interest rates, the need for savings was overdue, even sub-optimal in relation to expected returns. If individuals decided that they had no need to save more extensively, then that was a sign of how well-off they must be. Again, such a reading assumed that individuals were free and informed enough to be able to make the economic decisions that reflected actual market conditions. The sovereignty of the individual agent in its judgement was seen as superior in a way as to produce optimal macro-economic resultants. Even though the rationale was inversed, it was still based very much onto the same conceptions of how markets come to produce outcomes and what a constitutive role individuals were to play within them.

The underlying economic evolution between the pre- and post-millennium period was that house prices had gone up significantly so to foster household wealth. It was only because of the housing market policies undertaken that the policy-makers were now in a position to disregard savings concerns.

(...) the fact that the asset side of the household balance sheet today remains strong. Household net wealth, taking account of the recent fall in equity prices, is more than 50 per cent higher than at the beginning of 1997. So this debate has to be placed in the framework of a thriving economy. (Chief Secretary to the Treasury, P. Boateng, Labour: HC Deb 2003-04 423 col. 621)

Such a move was deeply political as it was able to do violence to the sets of naïve theories held earlier. At the same time, it was also playing into the hands of different population sub-groups. Whereas before the households that had enacted a savings strategy were depicted as the ideal-typical ‘economic man’, now a much more active and strategic attitude was promoted that required financial literacy in order to benefit from economic policy-making. As such, this shift also entailed a change in the distributional consequences of naïve theories.

This then reveals the relevance of studying mortgage and housing markets in parallel as the thesis has proposed to do. This section highlights that the incentivisation towards particular models of private asset management have to be linked to the home ownership market. In other words, policies enacted in the mortgage market acted as functional elements in facilitating naïve theories upon which upwards trending house price trajectories were sustained. To use the terminology introduced in chapter three, the mortgage market was the means to the end of home ownership whose exact meaning was framed in benefits to the individual. As such, the individual-state relationship was direct in the British context. The mortgage-housing connection might be obvious as far as the economics go, but what this chapter is interested in are the moral depictions of savings and investments. That is also why the next section explores in more detail the taken-for-granted conceptions held by policy-makers in relation to the British financial subject.

3 The Making of the Financialised Subject

Once the general context of the savings programmes has been set out, the analysis moves on to the very definition of the economic agent through state interventions and discourse. I have already outlined that the individual *per se* was considered to the cornerstone of the British economic regime, this also held in relation to the mortgage market. The naïve theories associated with proper private behaviour, and the links of those conceptions with specific macro-economic outcomes in the housing market, deserve more attention now. Stated differently, this section investigates the interplay between the particular understandings of state intervention, the definition of the individual, and the market, seen through the eyes of British policy-makers. The example of mis-selling of mortgages and the subsequent issues of consumer protection is taken as a starting point from which more general conclusions are drawn.

The previous section on savings initiatives has shown how state actors interpreted the role of the state as creating beneficial conditions upon which individual utility-maximising behaviour could then accumulate wealth. The case of mis-selling of mortgages (HC Deb 1998-99 337 col. 640: 101199) is particularly interesting in relation to the questions of this chapter as it offers an instance where policy-makers had to explicitly formulate their positions when explaining why such a practice was unacceptable.

In technical terms,

borrowers had taken out their mortgage at a time when the lender had only one standard variable rate. (...) The lender in each case introduced an additional

variable rate and claimed that the reference point for the deal was the higher of the two variable rates. Each lender tried to dress up its new rate in a different name.

(B. Gardiner, Labour: HC Deb 2001-02 381 col. 55WH: 050302)

The lending industry, and corporation within it more precisely, were thus using their powers to change the terms and conditions of financial products once they had been launched, especially as far as mortgage-based equity release schemes were concerned (HC Deb 2003-04 415 col. 676W: 151203). This was done without letting customers know and thus raised corporate profit margins. Such a practice was judged to be against standards of the 'fair play' principle (B. Gardiner, Labour: HC Deb 2001-02 381 col. 54WH: 050302). The institutional reaction was to extend the regulatory controls of the 'Financial Services Authority' (FSA) towards this area of financial activity (Pannell 2006). A first observation thus was that it was not a state department directly that regulated, but a politically independent body that was charged with overseeing the sector (Moran 2001).

But more centrally, the main method to avoid mis-selling was not a solution framed in terms of regulation at all, but one based upon further disclosure of information to the individual. As in found in the previous chapter, the logic was not that the industry had misbehaved, but that the consumer was unable to adequately react against its practices by sanctioning such practices. The reason for mis-selling was located in the insufficient amount of information that individual agents had in order to take informed decisions. Agents were unable to discriminate against the ingenious methods of mortgage lenders and hence opted for out-of-line market processes as they did not know the implications. In all the utterances in relation to the methods of how to minimise mis-sellings, the logic was one of an uninformed and thus irrational

economic agent. In other words, certain industry practices were able to persist because of a lack of consumer sovereignty (HC Deb 1998-99 329 col. 461: 150499). The solution then was to further ‘empower’ the consumer as described above so that he/she was put into a position to sanction unsound procedures.

(...) to help borrowers make better informed, confident mortgage choices and avoid products which have in some cases caused detriment in the past. (M. Johnson, Labour: HC Deb 1999-00 345 col. 518W: 060300)

The proposals announced by the Government were designed specifically to address these problems and put the consumer in control. (M. Johnson, Labour: HC Deb 1999-00 353 col. 441W: 100700)

The dominant naïve theory was that an active definition of agency was only effective and possible with a high degree of accessible information. It was not the role of the state intervention to protect consumers by forbidding certain financial practices directly, but it was the responsibility of the individual to make sure he/she opted for the financial product that fitted its needs best. The belief was held that once information was freely available, the market would be self-regulatory (G. Mudie, Labour: HC Deb 2006-07 453 col. 176W: 171106). As seen, policy-makers were reticent to actively regulate the mortgage market and were happy to stick to a policy where it “will place on mortgage providers a duty to inform customers” about any changes in its terms (HC Deb 1998-99 335 col. 181:130799). Just as in the case of British housing policies, the problem was framed in terms of limited information, and once the state policies pushed for more generous disclosure schemes, the rational choices of private agents would lead to economically efficient and socially legitimate outcomes.

There was again a belief in the rightfulness of market mechanisms and a strong sense that the public policy needed to “make the market work better for consumers” (R. Kelly, Labour: HC Deb 2003-04 424 col. 1203W: 070904) by tackling “confusion caused by lenders presenting information in different ways” (K. Howells, Labour: HC Deb 1998-99 328 col. 364: 250399). As reported in the previous chapter, the state policies, in both the home ownership and the mortgage market, only helped the economic agent to take informed decisions when it came to financial issues, again underlining the principles of consumer sovereignty. The individual was still the central element in the economy. This also matched with the taken-for-granted conception of the state acting as a market-optimiser. As for the legitimisation regime, it was direct even though it passed through market mechanisms as policy interventions were firmly targeted at the individual. In the end, economic outcomes were always reliant on proper individual patterns of mortgage behaviour.

However, information only was not sufficient in producing optimal market outcomes. On top of referring to all available data, the individual needed “the basic financial awareness and skills” to handle the latter (M. Wicks, Labour: HC Deb 2003-04 424 col. 1120W: 070904). Indeed, a set of initiatives was taken under the name of the ‘Informed Choice Programme’ that helped the economic subject to take full advantage of the financial products on offer, in the mortgage market but also as far as pensions went (HC Deb 2003-04 424 col. 1120W: 070904). This then related back to financial literacy programmes. The right planning strategy and long-term outlook were necessary to transform a market under conditions of informational transparency into one that lead to economically and socially acceptable results (Lusardi and Mitchell 2007). Only if private agents were playing the market according to rational

optimisation principles, was it performing at full efficiency. But that also meant that the process of helping people went further as it actively attempted to shape the very rationales according to which financial transactions were judged upon (Finlayson 2009; Langley 2009). The market-optimiser role of state intervention then extended into the making the an economic subject that processed information in a way as to make sure he/she gets the best possible return in technical terms. It is here that the notion of the making of the 'financial citizen' (Leyshon and Thrift 1995; French et al. 2011; Parker 2012) was most evident. At the same time, it was also an illustration that the British financial markets could not be considered as a natural and independent entity, but that the state heavily interfered with it in order for it to produce certain political ends. As such, it has to be seen as a space of the political, in terms of the facilitation of particular naïve theories and as distributing outcomes towards the 'financially literate' households.

At the same time, these utterance are indicative not only of the way in which the individual subject was regarded as the constitutive element of market dynamics, but also that in the end the latter had to benefit those very market mechanisms. Markets were thus understood as black boxes that magnified the inputs in a way as to lead to economic benefits for all in case the state official managed them adequately.

I think that everyone agrees that mortgage regulation will benefit millions of consumers. The FSA has approached the matter in line with its statutory objectives, on the basis of a cost-benefit analysis, to introduce a process that will benefit everyone. (Financial Secretary to the Treasury, R. Kelly: HC Deb 2003-04 419 col. 1746: 010404)

Just as with the case of housing policies where everyone was supposed to have a right to possess their own house, the rationale for state intervention did not show any signs of differentiating between economic agents according to their financial or social position. This is a finding that comes back when the comparison with the German case is proceeded with.

To go back to the concept of legitimisation regimes, this was consistent with a direct individual-state relationship in which the state addressed all individuals directly. The naïve theory promoted was that market mechanisms were the appropriate means for all of Britain's population to access credit and accumulate wealth. Certain initiatives in this line of thought were captured under the name of 'financial inclusion strategy' (Economic Secretary to the Treasury, E. Balls, Labour: HC Deb 2006-07 458 col. 85W: 280307; see also Gregg et al. 2005, 251) hinting at the universal character of financial practices. Again then, policy-makers regarded the state as a market-enabler in the role to bring individuals into the market, and as a market-optimiser as making sure the relevant level of information as well as financial management skills were present. The focus on making all market participants disclose a maximum of information was the way through which such a belief was operationalised (HC Deb 1999-00 345 col. 518W: 060300; HC Deb 2002-03 410 col. 1095W: 061003).

In such a setup, it was significant to observe a specific kind of mortgage regulation (Stephens 2007). I argue that it was a type of regulation that was necessarily on the side of the industry itself (HC Deb 1998-99 327 col. 768: 180399; HC Deb 2003-04 423 col. 627: 050704). As mortgage providers were at the very centre in their role of suppliers to market products, regulation was assessed according to a double standard.

On the one hand, state interventions had to make sure consumers were protected in their function of market-optimiser. On the other hand they also had to ensure that the mortgage market was offering the very services that enabled the market to produce positive results for all, in their function of market-enabler. The FSA was hence in charge to “prevent the cowboys from exploiting that market” (HC Deb 2003-04 415 col. 275W: 171203), at the same time taking into account that “regulation leads to increased costs being imposed on providers. Those costs are recovered from their clients” (M, Hoban, Conservatives: HC Deb 2006-07 453 col. 187WH: 171106). In other words, an independent body was asked to monitor mortgage lenders and flag up ‘black sheep’. The problem was hence depicted as marginal, not as structural.

As he knows, FSA mortgage regulation will benefit millions of consumers by ensuring that they receive clear and comparable information and appropriate advice about mortgages. He points to the record of the Mortgage Code Compliance Board in raising standards, and it is right to pay tribute to its work in that regard. I believe that the board also managed to improve the reputation of the industry, as a result of which the FSA has said that it can grant due credit to the firms that have been in good standing with the MCCB. (Financial Secretary to the Treasury, R. Kelly, Labour: HC Deb 2003-04 419 col. 1746: 010404, Ruth Kelly)

It was here where it became clear that regulation was supposed to benefit consumers and the industry alike. Indeed, the issue with mis-selling had shown that public concerns with industrial standards had lead to lenders being more conservative in their loans, in a way as to undermine the very effectiveness of the savings and mortgage markets.

It is terrified of mis-selling, appropriately, and is therefore increasingly not aiming to sell savings policies to a group of people whom it knows will typically lose a large part of income from savings later in life. (O. Letwin, Conservatives: HC Deb 2003-04 423 col. 617: 050704)

The centrepiece that had to be preserved, even under the context of regulation, was the capacity for financial operators to drive forward financial innovation (Engelen et al. 2010). Only if a large range of products were on offer were all individuals able to have access to credit (HC Deb 2005-06 438 col. 52W: 241005) and hence benefit from market processes.

On the one hand then, industrial players were necessary to individual asset accumulation, on the other hand they were potentially detrimental to it as the benefits of such a process were concentrated in the hands of the industry itself as the case of mis-selling had shown. There was thus a contradiction in which state interventions had to manage the suppliers of financial services. In this sense, it is understandable why state actors fell back onto the FSA as a technical and regulator in order to downplay the politics of any regulatory regime. Also, the reliance on codes of conducts was a possibility to regulate undesirable behaviour away without enforcing rules that hampered the market to offer the products that enables credit access to all (HC Deb 1997-98 310 col. 149: 070498). As explained in the theoretical chapters, this chapter confirms that the definition of the mortgage market in the British case here is one that itself carries already political features.

Parliamentary debates also demonstrated an ambiguous stance as far as the complexity of financial products went. On the one hand, the industry was expected to

come up with new methods to enable low-income households to access credit (HC Deb 1997-98 309 col. 13: 230398), on the other hand state policies had to protect the consumer from an extreme vast range of complicated products that people could not understand (HC Deb 1998-99 329 col. 463: 150499). In other words, the very tools that drove mortgages were incompatible with the type of economic agency and axio-rationality facilitated. Financial innovation was closely connected to raising complexity in the services on the market which made it even harder for the individual consumer to make this informed choice (Bookstaber 2008). It then became obvious that such a situation was unsustainable in the long-run, as it was impossible to simultaneously hold up the principles of financial innovation and consumer sovereignty.

As seen, the same principles of the making of economic agency also applied to savings more generally (Berry and Serra 2012). Once state interventions had ensured “macroeconomic stability and an efficient and well-regulated market in financial services”, the strategy was with “empowering individuals with financial information, improved access to advice, and simpler and easier to understand savings products” (Financial Secretary to the Treasury, R. Kelly: HC Deb 2002-03 404 col. 789W: 080503). The logic of consumer sovereignty was assumed as “household are best placed to decide on the level of debt that they should hold” (Financial Secretary to the Treasury, R. Kelly: HC Deb 2002-03 401 col. 21W: 100303). So even though the state intervention was “helping people to progress up the savings ladder” (HC Deb 2002-03 401 col. 131W: 110303, Ruth Kelly) though access to information and ‘financial literacy’ programmes (HC Deb 2001-02 392 col. 222W: 051102; Froud et al. 2006), it was still the individual’s responsibility to do so. The premise to ‘make the

market work better for consumers' (Kemp 1999, 135) was always one where the individual was in charge of his/her own financial wealth. This was a taken-for-granted assumption held by British policy-makers that influenced the form and content of the enacted programmes and that was supposed to entail beneficial macro-economic outcomes. The particular conceptions of how markets worked best, and for whom they should so listed in this section highlighted how the British policies were facilitating a set of naïve theories that put the individual at the centre as the driving element behind economy prosperity. As such, they also side-lined alternative understandings of the economy as a more collective entity, as the German case presents in the subsequent chapters.

4 Financial Conditions of Housing Markets

The financial programmes and the corresponding depictions of economic agency set out in the previous sections affected the state capacity beyond its interventions in the mortgage market. Indeed, they created pressures on policy-makers to uphold a regime in which the access to credit filtered into the home ownership market, and in which individual agents were able to accumulate wealth on the back of raising housing prices (Toussaint and Elsinga 2009). This is a central consequence of the direct individual-state relationship as policies were aligned to benefit the individual, even if that was to be achieved through market mechanisms. This section then examines in more detail the additional policies that were understood as making the market work for the people. It first looks into the policy links between the financial markets and the housing market, especially how the mortgage market was meant to feed into the latter. It then explores the tensions arising from keeping mortgage interest rates at low

levels. Consequently, it highlights the contradictions between attempts to incentivise flexible and fixed mortgages, concerns that lead to the commissioning of the Miles report into the causes for the low share of fixed-rate mortgages (Dudleston 2001). By exposing these tensions, it exploits the deeply political nature of the rationale for state intervention, especially in terms of the naïve theories facilitated.

There are more than 1 million extra home owners since 1997 as a result of the low inflation and low interest rates that have been achieved in this country. (Chancellor of the Exchequer, G. Brown, Labour: HC Deb 2003-04 426 col. 908: 111104)

(...) real disposable income has risen every year under this Labour Government. (...) That is the mark of a successful policy. (...) I remind the House that the leader of the Conservative party has said that "the British economy appears to be doing pretty well. Unemployment is low. Inflation is low. We're growing faster than many other European countries". That was the Leader of the Opposition's comment. (Chancellor of the Exchequer, G. Brown, Labour: HC Deb 2003-04 426 col. 909: 111104)

As these quotes demonstrate, there seemed to have been a conception in 2004 that the British economy was doing exceptionally well, due to the beneficial conditions that state policies had been able to achieve over the years in the financial markets, and that allowed individuals to access them. It was also obvious that high demand in the home ownership market was interpreted in terms of policy success. Relating back to the previous chapter, these comments also underline that the mere fact of entering home ownership was considered of moral end in itself that needed no additional explanation. The tone suggested that the government was to be applauded for its economic policies

that enabled economic agents to take advantage of low inflation and low interest rates to build up wealth (Taylor 2007).

When beneficial financial conditions were seen as the cause for increasing numbers of home owners, upward trending property prices were also taken to mean that more debt could be taken on.

That is even more the case when they realise that the value of their house has increased substantially since they bought it, perhaps only a short time ago. In those circumstances, people will inevitably get into personal debt that they can manage. That is a fact of life and we should not necessarily be afraid of it (...)
(T. Harris, Labour: HC Deb 2003-04 423 col. 632: 050704)

It hence seemed that the access to credit and house price trajectories were pushing each other in a way that was judged to be economically adequate and politically successful in relation to the individual. Both then came to legitimate not only the policy output and the British polity as such, but also the very naïve theories about proper economic behaviour, in relation to savings, debt and mortgages.

Indeed, policy-makers were arguing to have managed the market in way as to offer the opportunity for the higher standards of life to a very large part of its population. At the same time however, some voices highlighted sustainability issues with such evolutions and thus pointed to the political aspects of excessive house price trajectories.

What has the Governor said? In effect, he has said that the very large rise in household indebtedness, and the very large rise in house prices that is intimately linked with that, have not come about by accident. They are

associated with the activities of the Chancellor of the Exchequer in enlarging Government. We have a bigger Government, more spending and more borrowing. (O. Letwin, Conservatives: HC Deb 2003-04 423 col. 609W: 050704)

Just as outlined in the previous section, due to the ambiguous position of state policies in between promoting innovation in the financial industry (market-enabler) and protecting the consumer against practices of mis-selling (market-optimiser), the nature of the regulation was loose, giving cause for concern.

(...) the so-called property investment clubs, whereby many people are seduced into parting with large amounts of money as a result of totally specious arguments about the endless appreciation of the property market. All kinds of scams will emerge, and people will lose large amounts of money. It is a completely unregulated market, and the FSA is reluctant to take responsibility for it. (V. Cable, Liberal Democrat: HC Deb 2006-07 453 col. 183W: 171106)

In other words, the very elements of distribution of economic outcomes to a wide population that were praised in the quotes just above were attacked as being unable to be sustained, pointing to contradictions in state policies. Even more relevant in retrospect was the fact that just a year after these utterances, the situation outlined here was to happen, undermining the seriousness of all attempts to insure consumer protection through market processes (HC Deb 2003-04 419 col. 1746: 010404) and to keep the innovative character of the mortgage industry intact (Soros 2008, 100).

As most explicitly outlined towards the end of chapter four, the political aspects of public policy were then closely related to the way that they depicted not only the economic agent but also the functioning of the market. As these state interventions reflect taken-for-granted assumptions about economic life in the eyes of policy-makers, they are political as they limit the policy instrument selection process. Again I am referring back to the discussion on the literature on the sociology of policy instruments (Lascoumes and Le Galès 2007; also Etzioni 1975; Bemelmans-Videc et al. 1998) Combined with the directness of the legitimisation regime, they side-lined wider issues with the macro-economic situation of the economy. In other words, they did violence to alternative way of state interventions that are less focussed on the provision of opportunity to the economic agent and maybe more directly with the creation of macro-economic outcomes through state redistribution (3). As developed in the previous chapter, the policies themselves played into the hands of those market participants that were able ‘financially literate’ enough to take advantage of the beneficial economic conditions (4).

As far as naïve theories go, it is important to stress that the latter were constitutive of the very socio-economic mechanisms developed here, bringing back the concept of micro-macro complementarities as the matching between a particular definition of the economic subject and of the market. The definition of economic agency as the calculative individual that attempts to maximise wealth accumulation not only marginalises more passive conceptions of what proper behaviour in mortgage and savings markets was supposed to be (1) but also at the basis of how the distributional outcomes were justified (2). However, the chapter has also outlined instances where the consistency of such naïve theories can be questioned, hence spaces where it

becomes obvious that such understandings are always only socially constructed and are hence interpretations, no economic facts. To come back to the constructivist contribution of the thesis, it is only when economic notions are allowed to be interpreted according to a variety of naïve theories that such an additional layer of the political comes to light. As the theoretical chapters have outlined, it is this open-ended nature of the human mind that ultimately constitutes the additional reading of political features presented in the thesis.

Another issue debated in parliament was with the trajectory of house prices directly. The previous chapter has dealt in detail with how policy-makers have reacted to skyrocketing housing prices. Concerns with the latter within discussions about mortgages were indicative of how closely these two elements were connected in state policies.

However, all that has a dramatic effect on the market. As yesterday's *Evening Standard* reported on its front page: "House prices in the south east of England are predicted to rise by 8 per cent next year." That phenomenon is not restricted to London. The front page of *The Western Mail* today predicts that prices in Wales will rise by an astonishing 14 per cent next year. (B. Gardiner, Labour: HC Deb 2003-04 415 col. 274WH:171203)

Indeed, as we have heard from the Governor of the Bank of England, house prices are "well above what most people would regard as sustainable in the longer term". (P. Goodman, Conservatives: HC Deb 2003-04 423 col. 646W: 050704)

(...) bodies that are technically competent to make such judgments, such as the International Monetary Fund, are extremely worried and are arguing that

on most plausible measures house prices are probably 20 to 30 per cent above what we would expect them to be on some economic test. Many others in the City see the problem as a good deal worse. (V. Cable, Liberal Democrats: HC Deb 2003-04 423 col. 630: 050704)

This chapter argues that the reasons for policy inaction in relation to skyrocketing house prices can be found in the terms of regulation on the one hand, and on the other hand in the taken-for-granted assumption and naïve theory that, in the end, individual agents were best positioned to decide on their own levels of debt they could afford (Kitson and Wilkinson 2007).

With market information being widely accessible to the consumer, the financial skills of the latter were conceived to produce not only optimal decisions from the single person, but also that the cumulation of these individual actions would reflect the appropriate pricing levels in the market. In other words, the price of the market was always the correct one, one that took into account the underlying factors and was thus in line with the long-run equilibrium. In the final resolution of a lengthy parliamentary discussion on personal indebtedness and savings, it was exactly this understanding that was adhered to.

(R)esolved, That this House believes that a strong and stable economy is the foundation of families' confidence in their own finances; (...) further notes that as a result households are better able to judge their long-term commitments (...) (HC Deb 2003-04 423 col. 654: 050704)

Individual empowerment went hand-in-hand with a belief that markets would self-adjusting, and that once beneficial conditions were in place in terms of low inflation rates, utility-maximising agents would produce sound macro-economic outcomes.

However, British policy-makers were also aware of the tensions that were building up to keep mortgage rates at low levels in order to keep the legitimization regime on track.

Even though the British monetary policy had been delegated to the independent Bank of England in 1997 (Elgie 1998), that was not to say that state officials had no interest in the level of interest rates. On the one hand the government praised itself about how successfully the beneficial environment had opened opportunities for its population to acquire wealth.

Inflation is 3 percent. Average inflation under the Conservatives was 6 percent. Inflation in the United States of America has risen as high as 4.3 percent, and it has been above 3 percent in the euro area. (...) Our record of keeping inflation low throughout the past 10 years is the reason why we have had lower interest rates than other countries, along with 10 years of unparalleled sustained growth. (Chancellor of the Exchequer, G. Brown, Labour: HC Deb 2006-07 455 col. 1535: 250107)

On the other hand, the discussion also recognised that such growth was only sustainable in a context of low levels of interest rates.

Does my right hon. friend agree that it is important that we have low mortgage rates, as low interest rates are essential to ensuring that we continue the stability that we have enjoyed over the past seven years under his stewardship? Will he ensure the House that he will keep up the pressure to maintain low mortgage and interest rates? (B. O'Brien, Labour, question to Chancellor of the Exchequer, G. Brown: HC Deb 2003-04 426 col. 908: 111104)

Indeed, the self-proclaiming assumptions about successful market management created pressures upon state interventions to continue in a similar line, especially in a

direct legitimisation regime. As the majority of mortgages in the UK were flexible and repayments were thus sensible to the Bank of England setting of interest rates, they became a centrally political topic (HC Deb 2001-02 387 col. 705W: 240602; CML 2004, 11).

When in 2004 the base rate was increased and that the Treasury was asked what the effect on the housing market of such a move would be, the status quo was defended in relation to disposable income (Chief Secretary to the Treasury, P. Boateng, Labour: HC Deb 2003-04 425 col. 421: 141004). In other words, rising house prices were used to ensure the public and policy-makers themselves that the recent evolutions in higher mortgage repayments should not entail any change in patterns of individual and public behaviour alike. Still, it was also acknowledged that with “very high multiples at work” any increase in the base rate could lead to a situation where many households would spend “30 or 40 percent” of their disposable income on mortgage repayments (O. Letwin, Conservatives: HC Deb 2003-04 423 col. 612: 050704).

One need only look at what is happening in the forward markets, which expect interest rates to rise significantly and are factoring that into market expectations. Once interest rates move up by 1.5 or 2 percent, many of the comfortable assumptions about the ability of debtors to sustain their repayments become very questionable. (V. Cable, Liberal Democrat: HC Deb 2003-04 423 col. 630: 050704)

Such concerns were to be taken even more seriously as a situation of higher interest rates would have negative effect on the housing market because “large numbers of people (would be) finding themselves in negative equity” (V. Cable, Liberal

Democrat: HC Deb 2003-04 423 col. 630: 050704). Against the prospects of evolutions that would effectively undermine all the naïve theories described in this chapter and the previous one, British state policies persisted in maintaining interests rates low, even in a context of overheating housing markets that were led to an ‘asset bubble’ (HC Deb 2003-04 423 col. 631: 050704) and ‘increased gearing’ from “relatively high levels of debt” (M. Hoban, Conservatives: HC Deb 2003-04 423 col. 638: 050704).

Such a scenario would bring the British economic regime back to an era of boom and bust that had been wished away earlier on (HC Deb 2003-04 423 col. 654: 050704).

There is nothing in his mandate that tells him that he [the Governor of the Bank of England] is responsible for house prices and personal debt, but he has taken responsibility for that because no one else is doing so and because he can see the dangers. The problem is that he has only one policy instrument: interest rates. The danger of using interest rates to deal with such a scenario is that the British economy will become even more imbalanced. (V. Cable, Liberal Democrats: HC Deb 2003-04 423 col. 631: 050704)

Overall then, the state policies had manoeuvred the policy-makers into a position where the success of their own efforts had reinforced the underlying naïve theories to a degree where it was impossible to turn back because it was serving as a legitimization tool of state activity itself. As such, the facilitated naïve theories themselves became the largest obstacle to political change. This needs to be related to the specific type of individual-state relationship observed in this case, one where state policies were supposed to enable the individual to achieve economic wealth through market mechanisms. At the same time, this situation is reminiscent of the one described in the

previous chapter, again affirming the similarities of state policies, in terms of content and implications.

However, British policy-makers did look more closely into the features of the mortgage market according to the flexibility and fixedness of the rates of the products bought. Indeed, interest rates would not have been on top of the political agenda were flexible rates mortgages less popular (Miles 2004: 6). Again, an external expert was asked to give his qualified expert opinion as the market evolutions were unable to be explained by the existing taken-for-granted conceptions of policy-makers. In 2003

the Chancellor [of the Treasury] has asked David Miles, Professor of Finance at Imperial College, to undertake a review of the UK's fixed rate mortgage market to establish why the share of fixed-rate mortgages, particularly long-term fixed rates, is so low compared to the United States and many other EU countries. (Chief Secretary to the Treasury, P. Boateng, Labour: HC Deb 2002-03 408 col. 371W: 050704).

The tensions that had been observed within the savings programmes resurrected with mortgages. On the one hand, flexible products had been functional in offering opportunities to lower-income households by making credit more accessible through financial innovation (Doms and Krainer 2007). On the other hand, fixed rate mortgages would ensure that the British regime was more resilient against shocks originating from external shocks like changes in the base rate (Miles 2004: 3)

Even though the mortgage market was praised for its innovative character (Miles 2004: 97), the observation was made that under optimal conditions, fixed rate mortgages should be more popular. As with the Barker report, a market anomaly was

observed that was unable to be explained with the sets of conceptions held by policy-makers. Such an observation then undermined the rationale of the rightfulness of markets for the sake of certain economic outcomes. Whereas the housing market was considered to correctly determine prices, the mortgage market was seen as being biased for reasons related to its constitutive agents themselves. As such, the Miles report replicated very much the discourse on the limited availability of information and the inhibition of market mechanisms through unnecessary costs that lead consumers to take sub-optimal choices. In other words, economic agents were unable to take fully rational decisions (Miles 2004: 97).

I believe that this would be a consequence of the market working better – a consequence of people better understanding the risk and cost characteristics of mortgages, of those mortgages being priced in a sustainable, transparent and fair way and of obstacles that might exist to the most efficient means of funding such mortgages being removed. (Miles 2004: 3)

The report also mentioned that such changes would facilitate monetary policy directly (Miles 2004: 97) and recommended two sets of actions to be taken in order “to make the market work better for consumers in a number of areas”. (Financial Secretary to the Treasury, R. Kelly, Labour: HC Deb 2003-04 424 col. 1203W: 070904).

(...) first, those that are aimed at improving the advice and information that borrowers receive and at creating a fairer and more transparent pricing structure (...); second, those that are aimed at helping lenders fund mortgages and handle risk in the most cost-effective way (...). (Miles 2004: 98)

Even though “urgent reform” (Financial Secretary to the Treasury, R. Kelly, Labour: HC Deb 2003-04 424 col. 1203W: 070904) was desirable, that was not to mean a

considerable change in the policy direction. What it did imply were further roles for the state policy to optimise market outcomes according to the conceptions of pure and perfect competition as well as the introduction of additional market mechanisms in order to dissipate risk in a more efficient way (market-optimiser).

Such observations demonstrated the extent to which particular definitions of markets and agents were held by British policy-makers. Even though there was a degree of party politics in the discussions about how relevant certain economic issues were, they still shared the same conceptions of the individual agent as the ultimate determinant of economic outcomes and of the market as a rightful way through which benefits for the large majority of the population were supposed to be achieved. In addition to the current contributions to the literature (Martin 2005), these examinations of the definition of economic notions themselves not only offer a more complex picture, but most centrally adds a layer of political analysis as it does not take ‘the market’ and ‘the state’ as universal notions, but as social constructions.

5 Conclusion

This chapter has investigated the naïve theories put forward in the context of the British savings and mortgage markets. The thesis has done so as financial concerns were not only apparent to homebuyers but also to policy-makers that were implementing interventions into the housing market. Even though macro-economic issues with economic stability were invoked in the beginning to justify programmes that incentivised higher saving ratios, once property prices were upward trending, the latter were used to legitimate a less prudent vision of economic agency. When the

market was seen to underperform, the faults were remedied through the disclosure of more market information. Once individual agents were able to make better-informed, and hence more rational, choices it was believed that market mechanisms would reflect the economic fundamentals. The janus-faced mode of regulation adopted mirrored a conception that even though improper practice had to be avoided, the industry was at the centre of the innovation process that allowed a democratisation of credit, notably through flexible products. In other words, the roles of state policies as market-enablers and market-optimisers became hard to reconcile. This then created political tensions upon the state actors to ensure low mortgage interest rates in order not to threaten the apparently so successful British path of growth pursued earlier on.

To sum up, the naïve theories facilitated mostly related to an entrepreneurial and active economic man who takes initiative to exploit market information in order to accumulate wealth (Bröckling 2007). Through state interventions the economic conditions were engineered for such mechanisms to benefit a majority of market participants whose access to credit spilt over into the housing market. At the same time, rising house prices were also regarded as playing into the hands of additional mortgages. As such, there was a considerable amount of state intervention into the market in its role of market-optimiser. State policies were not only acting upon the financial industry to offer certain products that sustained the coordinative discourse, but they also acted directly upon moral understandings of what constituted proper private financial management. In other words, the constructivist approach has not only allowed a focus on how a certain ideal-typical type of economic agent was depicted, but also how state interventions were set out to execute a particular mode of

market-making (Clift 2012) through specific conceptions of how markets are supposed to function.

In this sense, based upon a constructivist method developed in the theoretical chapters, this part has highlighted the political nature of naïve theories and policies alike. Indeed, all the conceptions either taken for granted by policy-makers or facilitated in the form of naïve theories are political as they side-lined alternative interpretations of economic life. Whereas this is mostly theoretical for now, the comparative method and the German case study bring other conceptions of the economic subject and of the market to light. At the same time, the subjectivities found in the British home ownership and mortgage markets were fundamental not only in the policy-making arena but also in the way that the socio-economic phenomena developed. As such, the concept of micro-macro complementarities can be applied here as it points towards the way that economic regimes, or their sub-spheres as examined here, present institutional features and matching definitions of the individual. Indeed, in the two cases observed for now, the economic mechanisms in the form of markets were sustained by particular conceptions of the latter, and of the position of the economic subject within. The thesis then firstly adds the dimension of the making of the individual to the literature on comparative capitalism (as outlined in chapter three) and secondly points to the political features of such a level of analysis.

To finish off then, it is worth mentioning that the efforts to make the market create economically and socially legitimate outcomes in both markets analysed here were related to the role of the welfare state (Schwartz 2012). Indeed, in a regime where

legitimation was direct and hence where the mass of the population needed to be convinced in their role of individual agents and voters, state actors turned towards markets to distribute economic benefits (Fahey and Norris 2009). In their role of ensuring economic conditions that enabled individuals to access the mortgage and housing market, the policy-makers perceived themselves as benevolent actors.

All of that was necessary to give people a sense of confidence in saving, and to create the context in which our strategy for promoting saving and asset accumulation can succeed. (...) Those principles address opportunity, security and responsibility, and I see no reason why they should divide us across the Floor of the House. We embrace those principles because they underpin the very notion of the welfare state. (Chief Secretary to the Treasury, P. Boateng, Labour: HC Deb 2003-04 423 col. 622: 050704)

Even though there were disagreements about the actions to take, there seemed to have existed a consensus that, when handled correctly, markets could deliver economic benefits to all members of society. In this sense, the welfare function of the state was understood indirectly, as passing through market processes. As explained throughout, in the end state interventions were legitimated as working best for the people.

At the same time, there was also a naïve theory that was coherent with an active reading of agency that was sceptical about the more classical forms of the welfare state. As individuals were seen as not only sovereign, but also that their behaviour were the building blocks of the British socio-economic regime, all ways by which economic agency could be hampered were to be limited. As reported throughout the two chapters, the policy-makers conceived of the state as only being allowed to help individuals access markets and take advantage of them, not to procure direct benefits.

The Government is committed to reforming and modernising the welfare state to fulfil the objectives of promoting work incentives, reducing poverty and welfare dependency, and strengthening community and family life. (Parliamentary Under-Secretary of State for Social Security, K. Bradley, Labour: HC Deb 1997-98 296 col. 567: 250697)

In order to optimise market outcomes in social terms, the state policies not only interfered through regulation, but also consulted directly with the industrial players to make sure the products offered did correspond to its political ends promoted. It has been shown that such a perspective came with particular contradictory features, but in the British case financial innovation was synonym with social progress, at least for the time that such a model was sustainable (Doling and Ronald 2010, 168).

We made it clear in the Green Paper on welfare reform that we are working with the industry to provide better protection for all home buyers, including the unemployed. (Parliamentary Under-Secretary of State for Social Security, K. Bradley, Labour: HC Deb 1997-98 311 col. 10: 270498)

The hypothesis that the British housing and mortgage markets presented similar rationales in terms of naïve theories, policy instruments and policy contents has thus been affirmed. The next two chapters apply the framework developed in the theoretical parts of the thesis to the German case, for the housing market (chapter seven) and the financial market (chapter eight) alike. As the logic of this thesis is comparative, the second case is studied according to the same principles and methods than the first one. As a reminder, from the literature review onwards, the thesis has not only claimed to introduce an additional level of the political into the perspective on models of capitalist organisation, but also that such a point of departure brings to

light variety in the way economic agents and markets are made sense of. The hypothesis is thus that the German case exhibits divergences with its British counterpart analysed so far.

Chapter 7: Naïve Theories of the German Housing Market

1 Introduction

The British case analysed in chapter five has demonstrated the applicability of the framework developed out of the critique of the VoC literature that attempts to bring additional dimensions of the political into the domain of comparative political regimes (chapter two) through a constructivist lens. The theoretical arguments put forward in chapter three in relation to the indeterminacy of the human mind and the inevitability to close the interpretative void through naïve theories have been showcased with the empirical exploration of British state interventions into home ownership and mortgage markets. The research also displayed how specific legitimisation regimes in the form of concrete individual-state relationships (developed in chapter four) entailed particular choices with regard to the policy instruments and targets, as well as its content in relation to the definition of economic agency and markets alike. However, the additional political features take their origin in this very possibility of variety of naïve theories, in the potentially different conceptions of the ideal-typical ‘collective man’. Such variety is explored through a constructivist framework that pays particular attention to the ways in which economic notions have come to acquire certain meanings, and how such understandings do violence to alternative conceptions. This refers back to the ontological aspect of the political in naïve theories (aspect 1, as developed in chapter four).

If such variety is at the centre of the thesis, two ways are used to illustrate its political nature. Theoretically, the mere awareness that naïve theories constitute one interpretation of a wider domain of the ‘possible’ (Soeffner 2004, 31) allows the human mind to imagine alternative conceptions due to human ‘fantasia’ (Alker 1990, 164) as described in chapter three. Additionally, the comparative method can illustrate

such differential conceptions of the same economic concepts through case studies, as proceeded with in the subsequent two chapters. What is then presented is a study in parallel of the depiction of the same themes, the home ownership and the mortgage market as well as the definition of economic agency within the latter, for two different socio-economic contexts, the British and German one. As such, the hypothesis now is that the naïve theories observed in the German case are significantly different from the ones found in the British analysis. As the main contribution is in relation to the Varieties of Capitalism literature, the alternative workings of individual-state relationship are highlighted through concrete case studies that highlight the additional layer of the political to economic notions. Again, the concept of micro-macro complementarities takes into account that variety is not only a matter of institutional features (Hall and Soskice 2001) but also of variety in the underlying conceptions of what economic mechanisms are supposed to mean, as such and in relation to the economic subject.

In chapter three, the reference to Vico's notion of the indeterminate mind was not only used to put forward the constructivist point that what people take for real is made or produced, but also that such conceptions can display differential i.e. political features. Chapter four went on to explain how and why state interventions contribute to the (re)production of differences in economic conceptions, hence varieties of subjectivities. The logic was to show that the understanding of economic agency, of markets and of the functions of state policies cannot be taken as given over time and space, but that they are context-dependent. This hence requires a constructivist method first and then a comparative one to demonstrate the concrete differences through case studies. Such an argument follows from the literature review in chapter

two that highlighted the treatment of the state by some scholars as a quasi-universal institution, hence not dependent upon the specific meaningful context. Additionally, if the human mind is open to various interpretative schemes and that policy understandings limit such variability, then the facilitated naïve theories are political as they do violence to alternative conceptions of everyday life (aspects 1 and 2). At the same time the institutional features of this relationship, characterised by a certain legitimisation regime, is political as specific taken-for-granted assumptions held by policy-makers limit the policy instruments judged to be adequate as explained by the sociology of policy instruments (aspects 3 and 4).

In relation to these theoretical claims, the thesis is only able to back them up in their full scope once it engages in a comparative analysis so as to showcase the differential conceptions of central economic notions between capitalist systems of social organisation. As the VoC distinction locates the German economy at the opposite end of the British case (Hall and Soskice 2001, 19), the hypothesis is that the naïve theories found in German housing and mortgage markets display significant differences to the British case. As such, the thesis does not reject the findings of VoC, it merely complements them with an analysis of the different understandings of economic agency in these two economic regimes. Also, as the German housing market displays a very flat, hence different price trajectory for the period under investigation (1997-20007; Demary et al. 2009, 76; Voigtländer 2009), it is especially interesting to look into the social mechanisms, driven by state interventions and particular understandings of market processes, upon which such differences were able to arise (Iacoviello and Minetti 2008). Also, the German banking system is often described as displaying different features to the British one, which are then listed as

the cause for their specific model of capitalism (Deeg 1999) even though the German system is changing in this respect, possibly converging towards the British one (Cioffi 2006, 560; Howarth and Hardie 2009). Differential findings in naïve theories and subjectivities would not only highlight differences between capitalist economies that go beyond those traditionally described, they would also empirically validate the theoretical framework by exposing the additional political character of capitalist diversity.

Indeed, bringing out the comparative characteristics of the case studies also underline the political nature of the argument of the thesis. By highlighting the differences in how the ideal-typical individual relates to the state as an institutions and as a set of policies, of how economic agency per se is understood, and of what role the market is depicted to play in delivering the outcomes that satisfy these individual-state relationships, the thesis explains how different naïve theories are facilitated in a concrete comparative way. Juxtaposing these differences underlines the political violence done to alternative conceptions of the economic subject. If this chapter finds a significant difference in the German understandings with its British counterparts, then the thesis has to conclude that these differences cannot be natural, but that first they are the product of social constructions, and second that they carry political weight in the sense that they discriminate against other sets of naïve theories. On top of the already demonstrated feature of economic subjectivities being constitutive to the distributional effect in economic regimes (aspects 2 and 4), the comparative component also concretely exemplifies a reading of the political as marginalising certain interpretations of economic reality over others (aspects 1 and 3). This then

leads back to the very start of the theoretical argument when chapter two mentioned the possibility of different ways of how to make sense of the lived environment.

This chapter then investigates the meanings of the owned house facilitated in German parliamentary debates and the conceptions of economic agency that such state interventions were accompanied by. Again, the central question to be answered is which conceptions were held by policy-makers and which naïve theories were promoted in relation to the ownership market over the period 1997 to 2007. In order to do so, the key features and evolutions of the German ownership policy context are explained. Just as a reminder from chapter five, these conceptions are related to three more specific enquiries. First, I investigate the economic subjectivities of a certain model of ideal-typical home owner, which individuals qualified for an owned house and what the legitimating reasons were for why state support was granted to a particular population subset. Second, I also look into the depiction of the function of the state by policy-makers, and the relationships that were mentioned with regards to the individual home owner. Third, this chapter explores the relationship between the German understandings of economic agency, markets, and the rationale for state intervention more generally. Overall then, questions relating to the making of the market participants are at the core, combined with insights into the particular understandings of market processes.

As for the methodology, I have again looked at the most relevant parliamentary discussions as far as housing and home ownership are concerned. However, finding the relevant material was a bit more tedious a process than in the British case as the German online counterpart to Hansard ('Dokumentations- und Informationssystem,

Deutscher Bundestag') was less easy to navigate and information was harder to be exported in a digital form. For these reasons, I had to rely on the traditional methods of pen and paper here more extensively. The 'Bundestag' is the lower German chamber with directly elected representatives. As this chamber comprises significantly more representatives, and hence offers more insight into the content of parliamentary discussions (Schmidt 2003, 85; Conradt 2009, 182), only this coordinative discourse has been screened. On a technical note, all the translations from German to English are my own.

2 German Home Ownership Policies: the 'Eigenheimzulage' (EHZ)

For the period under investigation of the thesis (1997-2007), the central housing policy in Germany was the 'home ownership allowance' (Eigenheimzulage, hereafter referred to as 'EHZ'), active between 1996 and 2004 (Färber and Renn 2003). The chapter looks into the debates in the process of setting up the programme, but also reviews the arguments raised when it was progressively modified over the years. Such an enquiry highlights the conceptions of ownership held by relevant policy-makers. By investigating in more detail the steps taken by policy-makers and the statements put forward to legitimate the latter, the chapter attempts to reconstruct what definitions of economic agency, of the market, and of the state policies with regard to both were facilitated into naïve theories.

In 1994, a report under the direction of Prof. Sinn who led the 'expert commission on housing policy' was handed over to the German parliament that had been commissioned in autumn 1992 in order to "inspect the housing policy instruments

with regards to their timeliness, their economic efficiency, their social accuracy, their flexibility and their fairness” (HC 13/159, p.3: 301294)¹⁴. The analysis under this liberal chief economist claimed that home owners were disadvantaged against renters in economic terms due to arrangements in the German tax law, following tax legislation from 1987 (HC 13/159, p.197: 301294). The rationale was then to remove the discriminatory effects by bringing down entry barriers to the home ownership market, just as in the British case.

The extremely high building and land costs in the federal republic - in comparison with other countries - which mostly political factors account for, have blocked the creation of a market of cost-efficient ownership houses. Strategies for the enlargement of the supply of land, for the examination of inflated living standards in relation to cost-efficient building methods and for the build-up of a market for good value ownership should be supported. Such strategies could enhance the functioning of housing markets and open access to ownership especially for families with children. (HC 13/159, p.14-15: 301294).

On the one hand, the home ownership market was characterised as a domain where state interventions were asked to be reduced so that free market processes could find back to an equilibrium that minimised accessibility issues (HC 13/159, p.1: 301294). This approach followed a strong micro-economic focus where state policies were depicted as limiting the self-adjusting function of market processes (HC 13/159, p.14: 301294). On the other hand, the housing market was also framed in larger terms, as a

¹⁴ Even though this is a commissioned report and thus is not part of the central coordinative discourse in parliament, it is still informative in the way that the latter reacted against it, especially so as such reactions bring out the taken-for-granted assumptions of home ownership, markets and economic agency.

domain where a rationale for state intervention was legitimated on distributional grounds. Indeed, the commission stated that

(...) trusting the market does not mean to give up distributional and socio-political intents (...) the intervention-free market has its most significant deficits in relation to the will of the people, so that it might be an illusion to demand restriction from the state here. Still, such restriction still needs to be recommended. (HC 13/159, p.13: 301294).

It hence included a limited social role of state intervention, reduced to only provide aid to the mentally ill, to big families that rely on state income and to young people with disordered socialisation backgrounds. The reason was that these individuals were unable to access the market on their own terms even though they qualified for an owned property due to their social position (HC 13/159, p.59-60: 301294). As such, this discourse was in line with what Lehmbruch denominated under 'discourse of embedded capitalism' when he retraces the origins of the German model of capitalism (Lehmbruch 2001, 39). At the same time, such a concept demonstrates the constructivist lens adopted here.

Ownership was strongly portrayed as a tool of family policy, as an instrument for policy-makers to compensate for the additional costs that families were incurring for the mere fact of constituting such an entity (Kirchner 2006, 167). Indeed, the report recommended a targeting towards families with children (HC 13/159, p.14: 301294) as

(...) an alignment of housing policies towards minimal standards for the size and the quality of accommodation as well as a focus towards the family aspects can be drawn from the special meaning that housing space enjoys inn

relation to the development of children and adults alike. (HC 13/159, p.58: 301294)

Families that should have been able to access ownership on social grounds but were not, were to be helped move into the tenure that suits them best according to the German state. Ownership made sense for families as it helped them accumulate wealth (HC 13/7841, p. 3: 050697). The ultimate reason for such an argument was not explicitly stated, which itself points to the taken-for-granted character of such conceptions, but together with the focus on children it can be assumed that the rationale was that equity was to be passed on to the next generation through family mechanisms. Also the notion of ‘one-family-house’ (‘Einfamilienhaus’, HC 13/8802, p. 34: 221097) was revealing of the additional protection that families had to be granted in the German context.

More generally, the report highlighted a central function of state policies as ensuring the right to housing, in contrast to the quasi-right to own a house in the UK.

Apart from ensuring the framework for a market economy (...) the state also pursues interests of provision in the domain of the housing market. This results already from the core duty of the social state to cater for the existential minimum of the human being, and therefore more specifically to satisfy the basic need for desire to accommodation. Consequently, a humane housing is to be safeguarded out of socio-legal reasons. (HC 13/159, p.58: 301294).

Overall, such linkages with family policies were however ambivalent with the report alternating between the more economic market approach and a more socially-framed rationale. It even noticed that not all members of the commission agreed with

one specific reading of the role of the state in the housing market (HC 13/159, p.21: 301294).

It was then not surprising that even though the policy discussions were based upon the report by Prof. Sinn, they did not take over all its recommendations (HC 273/95, p.8: 090595). Very quickly, the parliamentary actors strongly endorsed the social principles quoted above (HC 273/95, p.2: 090595), stating that markets ought to be regarded as mechanisms of allocation that the welfare state can potentially utilise to ensure social rights (Häussermann and Siebel 1991, 127). In this vein, they stated that “the federal government is turning against attempts to let the market and the state play against each other in opposing directions”, and that it preferred a “dialog for housing policies that are economically and socio-politically efficient” (HC 273/95, p.3: 090595)¹⁵. Especially young families tended to be perceived as being in special need of low-priced accommodation and that hence they suffered most from the identified affordability gap (HC 273/95, p.4: 090595; Bentzien et al. 2012). Even though the economic focus was partially dropped, the rationale was still one of addressing unfair individual disadvantages. As such, the policy was legitimated through the individual channel. However, it is important to mention that it was also institutionalising a categorisation of individuals according to their social status, something less pronounced in the British case (Behring and Helbrecht 2002, 165). Such a notion goes back to the concept of ‘classes of provision’ (‘Versorgungsklassen’; Lepsius 1979).

¹⁵ Against a potential critique that a change in government in 1996 from the CDU to the SPD better explains the framing of the home ownership state project than the conceptions of policy-makers, I argue that the quotes here from 1995 already show a rejection of a purely economic and financial reading of the market.

Such a perspective was then reflected in eligibility criteria. The ownership market was made sense of as a sphere that some groups were more entitled to enter than others, and that state policy hence limited its support to a sub-set of the overall population. Against the British case, the economic subject in Germany was not only judged upon his/her financial capabilities to enter the market, but also on the social characteristics that entitled him/her to do so in the first place. In other words, some individuals had a right for state-aid whereas others did not qualify for such public support. In the end, as the owned tenure was seen to satisfy the special requirements of families, single people did not qualify for such benefits. This distinction was central not only in the way that German policy-makers understood the home ownership market, but also implied that the naïve theories facilitated with regard to the ownership market only applied to a specific, hence limited ‘group of people’ (13/8802, p.40: 220197).

In this sense, the introduced distinction between singles, and married couples and families with children was very significant, even if not new in the German policy-making context (Kreibich 1991, 74). Such a split was never challenged in any of the later policy debates (HC 273/95, p.5: 090595), demonstrating that all policy-makers agreed with such a taken-for-granted assumption about which sub-group of the population was deemed eligible for state aid. This distinction was regarded to be ‘socially fair’ even by the otherwise critical party PDS (HC 13/2357, p.5: 200995). The proposition set forward in the report for the number of children to be factored into the policy design (HC 13/159, p.19, 171: 301294; also HC 13/8802, p.17: 221097) was adapted with no further discussions. The term of ‘children allowance for building’ (‘Baukindergeld’) was used in this regard (HC 291/95, p. 5:180595), showing the strong links between housing and family policy (Bahle 1998). The

affordability issue was hence regarded to be limited to families on low incomes and did not pose a serious general issue for all individuals below a certain financial threshold (HC 13/1501, p.2: 290595). Such a reading was also linked to a highly developed renting market in Germany that was seen as offering a large range of accommodation opportunities (HC 273/95, p. 18: 090595; Busch-Geertsema 2000, 5; Bachofner 2008, 60). Ownership per se was hence not considered to be the most favourable tenure for all members of society, but only for families with children. The individual was measured on two dimensions, a monetary one and one of marital status.

The arguments in parliament did not mention purely economic reasons for supporting families, instead the rationale for state action was based on moral values in relation to the wider community (HC 13/4712, p.2: 230596). The logic was not only one of housing but one of solidarity and social justice for families that were deemed to rightfully benefit from the accumulation of wealth than came with ownership (HC 273/95, p.18: 090595). Indeed, the expression of ‘social obligations of ownership’ (‘Sozialpflichtigkeit des Eigentums’) was used by policy-makers to express that property was a ‘social good’ (HC 13/1312, p.1-2: 100595).

It is a downright element of home ownership to be faced with a relationship of tension between the overcome notion of ownership on the one hand and the requirements of the communal al life on the other hand. (HC 13/4712, p. 2: 230596, government statement)

It is here that the perspective included long-term concerns with the reproduction of the social order that could not solely be left to the aggregation of individual actions. Even though the EHZ was framed in relation to housing with its “aim to facilitate

access to the ownership market especially for households on the threshold” (HC 273/95, p.9: 090595), the policy was also seen as covering much larger concerns of German policy-makers than just those confined to ownership figures. The concept of ‘social good’ was not only evoked to grant special rights to certain individuals, but it did so in relation to their position within the wider socio-economic regime.

Even though it were individuals who were entitled to the benefits, the reasoning behind were not only based on purely individual rationales. In terms of market understandings then, the ownership market was not depicted as a space that needed to be managed by the individual, but one where state interventions were legitimated on terms of common goods (Bandelj and Sowers 2010, 31). Once individuals decided to marry and have children, they fully qualified for the home ownership market. Entering this market was hence not seen as a choice in terms of maximising life-time earnings, but one that followed from wider personal decisions about how to set up one’s life. The market was not a place whose outcome in relation to the individuals was to be optimised through rational strategies. More accurately, it was only a market in the sense that the supply was privately produced, but the demand in terms of entry criteria was socially limited through a particular rationale for state intervention.

Home ownership is especially well suited to facilitate family-suited housing supply and the accumulation of assets. (Federal government: HC 273/95, p.12: 090595).

But what may be rational from a private point of view [discrimination against families in the renting market] is deemed unacceptable as a societal outcome. (expert commission on housing policy: HC 13/159, p.25: 301294).

The fact that the EHZ benefits were progressively handed over in a time window of eight years (HC 291/95, p. 13: 180595) and were limited so each individual could only be granted once in their lifetime (p.17) was indicative that the conception of policy-makers about the housing market was not one of active utility-maximising agents. It was rather the case that they understood state interventions as acting in line with a role of classical welfare provision to make sure the financial aid was spent in the way it had envisaged it to be (Kofner 2004, 65). Splitting the money into eight slices meant that individuals were limited in their financial and strategic opportunities of how to make use of the allowance. In other words, the message was that the funds were to be channelled into the national building sector, hence promoting a definition of economic agency as passive. These characteristics already hinted at the upcoming micro-macro tensions in the EHZ, at the time it was being designed.

The policy was set up in summer 1995. The declared rationale for state intervention was the opening up of accessibility, better targeting of families and the enhancement of saving conditions (HC 498/95, p.1, 29: 200995; Eekhoff 2002, V). The amount distributed was linked to the costs of acquiring with a higher cap for new buildings than for stock, as building was deemed more expensive (§9). Children raised the amount paid out, as well as the maximum income cap. Marriage doubled the latter. The maximal income limits were calculated based on the summed income of the two years previous to acquisition (§5). As mentioned, the amount was paid for eight years after the acquisition. The final law (HC 716/95: 031195) slightly heightened the support for the renovation of stock and introduced an extra bonus for the installation of a heat pump (§9). Ecological concerns had been raised very early on and were supported by all political parties alike (13/2357, p.3: 200995). A neutral influence on

price levels was predicted (HC 13/1501, p. 31: 290595). Housing markets then constituted loci of state allocation of direct benefits, whereas in the UK the logic was solely one of 'helping' the individual help him-/herself through market mechanisms. Even though the initial rationale was based on the observation of unequal treatment between renters and home owners and that the identified affordability gap was kick-starting the debate, subsequent discussions about the exact implementation of the EHZ infused more general concerns into it, social and economic.

3 The Role of State Interventions into the Housing Market Economy

As the theoretical chapters have highlighted the centrality of individual-state relationships, it is important to investigate in more detail the naïve theories of economic agency that German policy interventions were putting forward with the introduction and subsequent changes to the EHZ. In terms of legitimation, state action was not justified as benefiting the mass public, but the coordinative discourse mentioned how interventions were supporting a very specific category of individuals, selected according to social criteria, not merely financial ones (Holtmann and Voelzkow 2000, 3). The concept of individual-state relationship in relation to German housing policies in the period under investigation then only applied to households as (future) families. For the definition of economic agency, this entailed that even though individual trajectories were taken as legitimating factors, it was not the individual person per se that was targeted as constituting an essential entity of economic life, but the individual as a member of a family, more specifically as a wife or a husband, a mother and a father. Housing policy then strongly linked financial benefits to social standing, a proposition that could be argued to be fundamentally

unfair in terms of individual opportunity, when an alternative understanding was applied. However, this was not the case in the German legitimization context. By introducing social variables into the funding equation, policy-makers enacted state interventions that were not only facilitating a vision that the economic and social domain of individual agents were separate, but also that his/her social features acted as conditions of specific patterns of economic behaviour (Hacke et al. 2005, 43). However, such a conception also entailed potential contradictions between individual financial concerns and collective social outcomes.

In this regard, the chapter explores subsequent developments of the EHZ that underlined the conceptions of economic agents as elements in a wider system that the state interventions had to manage. The tensions between micro- and macro-concerns became apparent and unsustainable with time, even though they had been present earlier on. At the same time, various macro-objectives were themselves hard to attain as they represented divergent policy logics (HC 13/3446: 090196). Such effects had been pointed out at the time the EHZ had been designed, for instance that cost-effective building methods could be undermined by quality concerns (HC 13/2506, p. 1: 270995). As features of the policy were modified, and others were extended over the years to better target the aid distributed, these developments were important indicators highlighting a shift away from the initial rationale of closing the affordability gap, especially for young families, as identified in 1994. Overall, what was visible was a move away from helping individuals as economic agents towards a rationale for state intervention that promoted issues outside the narrow boundaries of the housing market itself. With time, the whole notion of the market as being made up by individual actors became undermined by discussions about how state funds could

achieve the best result in a specific political context. These evolutions confirm the feature of output legitimacy for the German case as discussed in chapter four (Scharpf 1999; Schaefer 2006). This hence also represented the facilitation of specific understandings of markets. Again, this is central to the thesis as the variability in markets conceptions, held by policy-makers and housing consumers alike, are constitutive for a certain variety of capitalism (Carrier 1997, 24).

The first observation related to the inclusion and subsequent extension of a strong ecological component. The discussions were particularly interesting in this regard, as they were acting counter to the initial principles that the EHZ was supposed to address, first its micro-focus, and second the issue of affordability and cost-effective building. Already in the very first statement about the report of the commission, the German government had underlined that

Housing policies and those relating to the building of cities are also applied to environmental policies. Building must be in harmony with ecological requirements. The federal government thinks that it is especially necessary to enforce energy- and space-saving building methods as well as the use of ecologically compatible building materials. (HC 273/95, p. 9: 090595).

Already at this point, the language used pointed towards an understanding of the state as giving priority to issues that were relevant for society as such, not only for the narrowly defined economic agent as an individual (Schuppert 2004, 25). As such, the individual was not the only constitutive element of market outcomes as was seen in the British case. The linking of housing policy to public infrastructure was indicative in this context. At the same time, it was never developed how the promotion of state-of-the-art technology was compatible with the initial ends of offering home ownership

to more families. In other words then, technological progress was taken as a moral taken-for-granted end in itself (Habermas 1970). Such discussions were not raised, not even by the otherwise rather critical PDS (HC 13/2357, p. 3: 200995). It looked as though there existed a naïve theory that once the state could successfully manage the economy as such, individual destinies would be taken care of as well. Such a view underlined the indirect character of the German legitimization regime based on outcomes.

Even though voices were concerned with the effect of such policy elements on the aim of cost-effective building (SPD fraction: HC 13/2506, p.1: 270995), the ecological component was largely discussed in its technical details and adopted (HC 13/2784, pp.11, 52: 261095; HC 716/95, p. 21: 031195). Even when concerns with the public deficit crept into the discussions, a concern that came to dominate the EHZ later on, the ecological elements were never challenged (Greens fraction: HC 13/10788, p. 1: 260598). One explanation was that at the same time, these ecological features were also related to the current state of the building industry, and had been before (HC 273/95, p.34: 090595). The exact same terms were even used when describing future directions in this industrial sector: ‘energy and space-saving building methods’ (HC 13/6318, p. 2: 211196) were seen as helping the industry to sustain employment (Bischoff and Maennig 2012). It was thus clear that the EHZ was also a method to boost the order books of the building and impede employment figures to drop (HC 174/471, p. 2: 040398). In relation to the individual-state relationship, such findings meant that the individual was not regarded as the essential unit of analysis when it came to conceptions of how the economy was functioning. Policy-makers were not looking through the eyes of the single economic agent, but

acted in the self-declared interest of the whole society. Again, the link to the delegate model of representation' (Miller and Stokes 1963) is obvious here. The rational individual agent was regarded as never being fully sovereign anyway (Martini 2004, 169). Such an approach was consistent with the legitimization regime centred on output legitimacy and hence an indirect legitimization regime as described in chapter four.

A second development explored here for its indicative value in relation to taken-for-granted conceptions of German policy-makers is the progressive lowering of the income limit of the EHZ and the related shift to fund stock more extensively than new buildings. Indeed, it was argued that as acquiring stock was comparatively more expensive, it should be adequately funded (HC13/8802, p. 33: 221097), a proposition that went against the rationale of previous legislation, and hence was partly off-line with the rationale for state intervention. The targeting objectives through the setting of various income limits had been raised beforehand in the discussion of the policy design (HC 716/95, p. 2: 031195). But when the PDS proposed to reduce the income limits by a third, as well as to extend the unmarried couples (HC 13/10295, p.1: 010498), its suggestions were rejected (HC 13/11013, p.1: 170698). The argumentation ran as follows:

There was a 22.2% increase in the amount of one-family-houses built in 1996 against 1995, which private banks attributed to the introduction of the EHZ. (HC 13/11013, p.3: 170698).

However, if such targeting was not supposed to be necessary, then the logic of the shift towards the promotion of stock was hard to be explained. Indeed, it was argued later on that such a move would be a way to keep the policy financially viable in the context of increasing worries with public deficit (Federal government: HC 14/1835,

p.2: 211099). It looked as if there were other concerns that explain such a refocusing effort then.

Indeed, desires were formulated to renew the city centres in the new federal states (HC 13/8802, p.39: 221097), but also to strengthen the building industry (HC 13/5960, p.2: 051196; HC 14/163, p.15883: 040401) through a 'building culture initiative' (HC 14/8966: 290402; Weeber et al. 2005). These macro-objectives indeed did entail the limitation of income levels and a shift of more beneficial conditions from newly built to stock houses (HC 13/8802, p. 33: 221097). Again, the housing market was not conceived of as a space where free agents would interact to determine general levels of prices. In general, discussions rarely mentioned economic agency as such, as the individual focus was now lowered amongst various other macro-objectives the EHZ was supposed to achieve. The market was considered as a tool for state actors to channel funds into certain sectors of the economy they judged appropriate to support, not as a playing field of active and profit-seeking individual agency. The rationale was that such efforts would benefit the society in its entirety, with such arguments being the foundation of legitimization claims.

However, as this push was promoting expensive renovations and modernisation, it acted counter to the initial accessibility objective (HC 14/6637, p.1: 030701) and was undermining the micro-concerns that had been put forward when the policy was introduced, especially as outlined in the report submitted by the commission. Indeed, such initiatives were taking cheaper property off the ownership and the rent markets (HC 13/7710, pp.2-5: 160597). The coordinative discourse in relation to the rationale for state intervention then advanced a naïve theory that economic agents themselves

were not asked to make their own choice in terms of tenure, but were supposed to follow the option that state policy had selected as the most adequate for their socio-economic situation (Herit 2009, 12). However, the findings here demonstrate that even though the political aspects behind such policy choices were not debated, they clearly existed. In distributional terms, they favoured the construction industry against the general population (aspect 4). At the same time however the naïve theories about economic agency and markets advanced in the German context marginalised conceptions of the economic individual as a being essentially constituent of the economy, and of the market being a legitimate policy tool in its own terms (1) as has been seen in the British case. This is then an example of how the comparative method illustrates the political aspects of particular economic regimes.

Consistent with the developments explained beforehand, the housing market was regarded as an institution that distributed tenure among individuals, not a space where economic agents could decide on their own which type of accommodation they preferred to live in. As state policy implemented the taken-for-granted assumptions of policy-makers and hence set the entry criteria for various housing markets, such intervention took all aspects of individual financial utility-maximisation away. It was argued that as the market allocated too many young families into the renting section, and as that such an outcome was contradicting the principles of the German version of welfare state, state policy had to intervene to correct or rectify such developments. Again, markets were read in a macroeconomic fashion, housing markets were regarded to perform social functions of welfare services (Münch 2010).

Even though the delivery of goods occurred through private market mechanisms, the output was monitored according to a mix of social and macro-economic lenses. For young families then, this meant that state intervention corrected the market in a sense as to allocate them an owned house, so they could be parents that were able to offer conditions proper for the development of their child(ren). Once an individual fell in to this social category, policy intervention was adequate to help him/her in their socially legitimate endeavours to create a family. It were thus state policies that set the ‘framework requirements and limiting factors’ (‘Rahmenbedingungen’, HC 13/8802, p.1: 220197) upon which the market could then operate, indicating that markets were fundamentally perceived to be arenas of state intervention. The concept of market-optimiser then applies here, but in a very different sense to the British conception. Whereas in the UK the term covers state interventions in order to bring market processes closer to a state of pure and perfect competition that then enhances social outcomes indirectly, the German conception was more focussed in the delivery of social goods.

Again then, a constructivist focus on the meanings of economic terms can draw out differences in capitalist diversity that have not been highlighted so far. At the same time, such differences are political, first in themselves as they side-line alternative conceptions (aspect 1) and second as they translate into conceptions of ‘good’ and ‘bad’ economic agency (2) as well as leading to distributional consequences (4), legitimated on the back of such specific naïve theories. At the same time it allows for a more historical perspective, in connection with the state tradition of the ‘social market economy’ in the German case (Nicholls 2000; Ryner 2003, 202).

At the same time, “functioning housing markets are also a precondition for successful social policies” (expert commission on housing policy: HC 13/159, p.3 : 301294), meaning that markets were not themselves the tools to achieve social goals, but a condition that needed to be fulfilled before state interventions could work. The rationale here was that the redistributive features of state action were only able to be operationalised on the grounds that markets were generating revenue for the state in the first place. It was hence not the case that state policies were to engineer a particular market that would then produce the outcomes it desired. Instead, markets were believed to produce outcomes, upon which the policies could only then act to improve the legitimacy of the polity and the policies themselves. Policy-makers were thus not actively interfering into the market as far as the production of outcomes was concerned, but were making sure it served the values deemed appropriate in the German rationale for state intervention. Those norms related to social principles that the polity had decided upon (Martini 2004).

As the individual-state relationship was indirect, the political implications in distributional terms from the EHZ did not have to be ‘sold’ to the general public. This became obvious when no explicitly concrete legitimating rationale was presented for why married individuals and households with children were targeted by state support, and others not. Even though it was possible to reconstruct the underlying reasoning, it was not argued in such open fashion (HC 498/15: 110895). It seemed as if policy-makers had no need to explain such a move because it assumed that its underlining values were carried by its population (Rasl-Brandl 2010).

This also meant that policy-makers were in a dominant position to facilitate the policies themselves had deemed appropriate. As seen, such a policy-process marginalised other forms of life like people that lived together but were not married and homosexual couples (HC 13/2784, p.29: 261095), and denied equally generous support to disabled member of society (HC 13/3605, pp. 1-2: 010296). Indeed, whereas the traditional heterosexual union was depicted in positive terms, other unions were not (number 2 of the political aspects of comparative capitalism). The legitimisation regime focussed upon the general good of society hence allowed differential treatment on potentially anti-social grounds (HC 940/96, p. 4:041296). Indeed, this violence was even accused to be anti-constitutional (HC 13/8802, p.81: 220197). These insights demonstrate that the politics of the EHZ, in its initial form and its developments were never rendered explicit as they were informed through strong taken-for-granted assumptions of policy-makers.

As seen, the parliamentary discussions suggested that the rationale for state intervention in relation to the home ownership market promoted economic subjectivities that were judged to be beneficial to the German economy broadly spoken. This then lead to a situation where certain individuals were granted financial assistance not so much for their individual merits, but for their social position. It can thus be argued that such a policy was not only highly conservative as it advocated the form of life of the traditional family, but that it was also allocating public resources according to criteria that were not fully in the hands of the individuals themselves, hence were not legitimate according to a reading of input legitimacy (Scharpf 2004). In other words, the German state policies were utilising public money not only to support a subset of its population (political aspect 4) but also to facilitate the

reproduction of certain forms of life policy-makers deemed essential to the long-term sustainability of a particular socio-economic model. The enmeshment between micro- and macro-concerns was thus obvious to the German individual. Indeed, the ultimate rationale for supporting future home owners was found in their contribution to the community, not in their intrinsic qualities per se. As such, the naïve theories themselves not only lead to justify certain moral depictions of good citizenship (Parker 2012) (2) but they were also at the very basis of how the German housing market came to be understood in one specific way and not another, by policy-makers (3) and everyday housing consumers alike (1).

4 Ending the EHZ: Micro Arguments Overturned

The previous sections have highlighted how the legitimization methods around macro-economic issues were progressively undermining the initial aim of the EHZ to bridge the affordability gap that had been identified to be an issue especially for young families. This means that the form and content of policies was inconsistent with earlier claims. Apart from running counter to a logic centred on the individual per se, these general concerns were conflicting between each other (Matzig 2005), with one of them finally leading to the cancellation of the EHZ: the concern with the public deficit. Issues with the financial sustainability of the massive budget of the policy were raised from 1996 onwards. The latter were only fully taken into account by the ‘committee for land use planning, the building industry and town planning’ when it related them to demographic outlooks predicting a raising number of single people for 2010 (HC 13/4533, p.7: 070596). At this point however, its motion was however rejected by members of parliament (HC 13/4533, p.8: 070596). The Green party was

also denominating the German housing policies as following the principle of ‘mass creates mass’ (‘Gießkannenpolitik’, literally ‘watering pot politics’, HC 13/7710, p. 3: 160597) and was urging targeting efforts to avoid houses being transferred into the ownership market. In this line of thought, it also called for a limitation of all property-related policies ‘in times of tight cash boxes’ (HC 13/7710, p. 5: 160597). These policy themes were developed over time, pushed for the progressive lowering of income levels, and finally legitimated the cancellation of the policy.

However, before such concerns were taken into account, further macro-issues were addressed through the EHZ. The employment issue in the building industry was an example of how the policy, set up out of a partly micro-economistic reading of housing markets, was taken over by much more political topics on the macro-level. When discussing changes to slim down the EHZ (HC14/471: 040399), members of parliament were pointing out that it supported the economic activity in the building sector especially in the ‘new’, hence ‘Eastern’, federal states (HC 14/36, p. 2937: 230599). The extension of the ecological components of the policy (in 2000) was also considered to boost to the German economy at large (HC 14/6542, p. 2: 030701).

Implications on prices, individual companies and consumers are possible. However, general negative effects on the German economy are not to be expected. On the contrary, the construction of energy saving devices and low-energy-houses is stimulated by the lengthening of the additional allowances. (HC 14/4130, p. 2: 260900, SPD and Greens).

In other words, potentially detrimental effects on consumer prices and hence higher entry barriers into the home ownership market were accepted on the grounds that the

overall economy, and more particularly the construction industry benefited from the introduced changes. As such, the taken-for-granted assumptions were not only depicting the building in a positive light (aspect 2), but they also led to concrete benefits for the sector (aspect 4). Such statements made it hard to take the policy aims in relation to the affordability gap seriously even though the Green party had expressed concerns with cheaper housing only three months before (HC 14/3664: 270600). Such debates still acknowledged a very limited status to an active conception of economic agents as has been seen in the British context. Indeed, some policy suggestions mentioned “additional funding for the installation of heat pump equipment, of solar collectors or devices to recover heat” (HC 14/4131, p.1: 260900; HC 14/4379: 241000), playing on the technicalities of such measures. Such a coordinative discourse was not only silent about the role of the individual, but also about the political elements of such moves (HC 14/5596: 150301) apart from mentioning their beneficial effect on a very specific section of the labour market (HC 14/6542, p.2: 030701).

Again, the logic was to secure ‘employment’ and hence help individuals indirectly, instead of directly handing financial resources over to them for them to decide how to best invest them. This language is then indicative of a macro-economic approach to the German markets and the economy more generally where individuals are not seen as rational decision-makers whose actions lead to a particular economic outcome. This is then an example of how the constructivist approach highlights the ways in which particular conceptions of the economy entail differential policy-targeting efforts. At the same time, this example illustrates the political aspects of coordinative

discourse and hence offers a critique of current trends in the constructivist institutionalist literature as developed in chapter four (Schmidt 2000).

In relation to the definition of economic agency then, this meant that the policy was progressively undermining its initial focus on the individual in favour of becoming one tool among many in the management of the overall economy. Whereas the commission report had offered a reading that was very much focussed on fair treatment between individuals, the reasons that policy-makers then adopted were strongly relying on social arguments about the long-term reproduction of the German socio-economic model, not on the benefits of individuals per se. The naïve theories were depicting economic agency as secondary to larger macro-economic issues. The form of axio-rationality was limited in the sense that economic utility-maximisation was only allowed for the individual once policies have created such a space. This example highlights how the social context can limit textbook rationality. Indeed, the constructivist perspective does not take rationality as a universal concept, but locates it in a meaningful context (cf: *axio-rationality*) and hence allows for a variety of how economic behaviour is made sense of in diverse socio-economic environments.

At a time where the building industry was seen as facing a crisis (HC 14/163, p. 15883: 040401), it was only the PDS that was openly addressing the deeper underlying issue.

Secondly, I have to tell you that a house gets built for somebody to life in it, und not to sustain jobs in the building industry. This goes without saying, but during your government the priorities were set exactly the other way round.

(PDS, HC 14/163, p. 15904: 040401; see also Behring and Helbrecht 2002, 158)

This quote sums up the line that the German policy-makers had been taking since very soon after the introduction of the EHZ when it was progressively subjecting individual concerns to issues of socio-economic management¹⁶. It is also an indication for this line of thought presenting taken-for-granted assumptions for policy-makers.

Even though the initial discussions were centred on pricing that claimed that quality objectives should not be overpowered (HC 273/95, p. 11: 090595), that was exactly what happened. As the order books of the industry were on a downwards path (HC 13/159, p.333: 301294; HC 13/6318: 211196).

Over the years, discussions about the differential promotions of new and existing stock and about the lowering of the income limits had acted in a way to keep the policy budget constant in a time when public deficits had to be kept an eye on (HC 13/4533, p.7: 0070596; HC 13/6318, p.2: 211196; HC 159/03, p.5: 060303; HC 612/03: 280803; Streeck and Mertens 2011). The usual legitimization argument was to allocate more resources into the promotion of stock and to narrow down the population targeted. Such moves were supported by a parliamentary debate revealed that a considerable amount of the aid was allocated to households that would have accessed ownership anyway (HC 14/1198, p.3: 210699). Hence, at the same time when macro issues were mobilised to legitimate incremental changes, micro arguments were presented as running directly counter to the uselessness of the EHZ (HC 13/8802, p. 86: 221097). Indeed, individual benefits were seen as going against the larger collective good. Such a move must be seen as inconsistent with the very

¹⁶ Even though the SPD government under Schröder was replaced by the one under the CDU and Merkel in 2005, this has only marginal significance here as the decision to end the EHZ has been taken before this change in power.

reasons for the establishment of the policy in the first place. Again then, this shows how political coordinative discourse is, but also how a constructivist approach digs out such additional political aspects.

From 2000 onwards, the EHZ was then presented as a policy that had been so successful in minimising the affordability issue that it was no longer of importance (HC 14/8297, p.2: 200202; HC 14/9344: 110602; HC 14/242, p. 24296: 130602; HC 15/8, p.423: 071102), especially as interest rates were now so low that the acquirement of the owned house could be achieved by the classical financial means (HC Bundesrat, p. 50: 140303). The critics of the EHZ hence showed that even if the macro-concerns were not convincing enough, the arguments in favour of the EHZ in the ways it could benefit individuals were biased.

The initial focus on individuals, even if only partial as targeted towards families with children, was now turned against the policy upon more general grounds. The rationale was that as public money was involved, it was inefficient, even unfair to target a very particular group with additional benefits. It was even seen as running counter to the principles that the collective benefits needed to be catered for in the first place. Phrased differently, the underlying rationale for why parents were fulfilling central roles in the reproduction of the social order fell away as justificatory mechanisms (HC 13/8802, p. 86: 221097). In the wake of major changes in the socio-economic structure of the German model identified by policy-makers, they allocated resources away from individual benefits. From 2000 onwards, it were only macro-issues that were driving the discussions of how to modify the policy so as to reconcile the

objectives of supporting the industry with the increasing pressures on the budget as state tax income was shrinking (HC 15/129, p. 11695: 300904).

As demographic outlooks showed diminishing fertility rates (HC 13/4533, p.7: 070596; HC 14/242, p.24283: 130602) and a high level of vacancies, especially in the new federal states (HC 14/6055, p.2: 160501; HC 14/163, p.15902: 040401), the need to support families was considered to be overdue. The very reason for why the EHZ had been designed was now unimportant, or at least that was how German policy-makers interpreted the situation. Macro-economic figures had lead to the conception that the affordability gap was not an issue worth of public funding as it was to be disappear over time even without state intervention. The reasons were related to ‘demographic and social changes’ (HC 14/242, p.24283: 130602) that entailed

An individualised and much differentiated society that comes with different forms of housing and of life. We need to adjust politics to these. (Greens, HC 14/242, p.24284: 130602)

The decrease in population (HC 14/8297, p.2: 200202; HC 14/242, p.24283: 130602) predicted by the ‘housing prognosis 2015’ (HC 15/459, p.2: 180203) and the local inequalities in housing demand and supply (HC 14/242, p.24284: 130602) were the main causes put forward against the EHZ. However, it still took policy-makers a couple of years to decide to scrap the policy altogether. This was due to the contradictory objectives and interests of continuing to support the building industry and to restrict public finances.

Only a little more than three years into the policy that had been hailed among policy-makers (HC 14/471, p.2936: 040399), macro-economic concerns had undermined the

arguments to close the affordability gap (HC 14/4422, p.3: 251000). Even though it was incrementally admitted that the subvention of ownership had been overdone, numerous debates between parties took place to decide on what action to take. In autumn 2000 the ‘initiative architecture and building culture’ was adopted to promote quality awareness among the larger public (HC 14/8966, p.9: 290402) because “planning and building have an essentially social, ecological and cultural relevance that goes well beyond its economic aspects”. As “the built environment reflects the self-understanding and values of a society”, the quality of the latter was seen to deserve special care (HC 14/8966, p.1: 290402). These lines suffice to demonstrate that the rationale for state intervention acted counter to the efforts to support the lower-cost end of the ownership market. At the same time, these developments were not conceived of as constituting contradictory rationales as they were mentioned in the same instance (HC 14/8297, p.13: 200202). It is important to highlight that German policy-makers did not conceive of quality issues as being in opposition to bringing entry barriers into the home ownership market down. As such they limited the array of policy instruments under consideration. Again, such a narrowing down of the domain of the ‘possible’ is political (Laclau 1990, 34) as it does violence to alternative policy approaches (aspect 3) and distributional outcomes (4).

When it came to the discussion on how to best reconcile the objectives of state support to the building industry and of restricting public finances, the FDP was in favour of keeping the EHZ unchanged on the explicit grounds that a cancellation would lead to between 200,000 and 400,000 job losses (HC 14/242, p. 24286: 130602; HC 15/33, p.1: 061102; HC 15/8, p. 419: 071102). On the one hand, the CDU repeated that the EHZ should not be used to create jobs (HC 14/242, p. 24279:

130602), on the other hand it was also clinging to only introducing minor changes to the policy (HC 15/3714: 210904). Hence efforts were again undertaken to additionally target the EHZ and channel more funds into the renovation of stock (HC 612/03, p. 3: 280803) even though this was further threatening to undermine the renting market. Indeed, it had been argued that the EHZ had already led to lower investments into rented houses as the return was lowered (CDU/CSU fraction: HC 14/6637, p. 1: 030701). There was no consensus on the figures of potential job losses as the numbers of 100,000 (HC 15/8, p. 427: 071102) and 50,000 were now mentioned (HC Bundesrat, p. 42: 140303).

In summer 2004 the German the members of parliament decided to replace the costly EHZ with a “law for the financial support of the innovation offensive through the annulment of the home owner-allowance” (HC 620/04: 130804). Indeed, this document depicted the EHZ as “expensive and inefficient” (p. 1) as the aim of the promotion was said to be already reached and that more resources would endanger it (p.2). Policy-makers now believed that the state intervention into the functioning of markets had been detrimental as it had interfered with market mechanisms (p.3). As the demographic evolution was now stagnating (p. 2), a continuation of the policy was seen as counterproductive. It was even mentioned that the EHZ had entailed an inflationary effect (p.2) and that it was now mostly used by rather wealthy households (p. 3). In other words, the policy approach that the commission had set forward in 1994 and that had been rejected now in favour of a more social reading of markets now reappeared in order to de-legitimize the very interventions that had been proceeded with over the last decade. This not only points at the temporal tensions in the depiction of markets (as self-sufficient on the one hand, and as mere conditions

for state interventions), but also at the importance of taking into account the wider interpretational context of naïve theories. This then relates back to the discussion of axio-rationality and to the constructivist method as outlined from the very beginning of chapter three.

In the context of the Lisbon strategy (HC 15/129, p. 11694: 300904) and the mentioning of the Maastricht criteria (HC 15/8, p. 422: 071102), fiscal discipline (Clift and Tomlinson 2004) combined with a programme to long-term support to the German status as an knowledge economy with high human capital was seen as more appropriate and incompatible with the expensive and de-legitimated EHZ (HC 15/129, p. 11706: 300904). These steps were supposed to set Germany on a trajectory of additional growth and additional jobs (HC 620/04, p.3: 130804; HC 15/129, p. 11696: 300904). Also, it is argued that low interest rates have been beneficial to access ownership anyway so that the EHZ was overdue (HC 15/129, p.11709: 300904), again more closely following the approach to markets as laid out by the Sinn report. Still, what is important in relation to the individual-state relationship is that all of these discussions were mentioning macro-economic arguments with no reference to the individual. Again, this points towards a legitimization regime that is centred on output, in the sense that policy-makers were supposed to care for the good of the entire society, not for the individual per se.

Indeed, the coordinative discourse of economic growth combined with infrastructure investments was indicative that for German policy-makers economic patterns of micro-agents were not seen as the key variables to act upon. Instead state

interventions had to ensure that the correct policy decisions were made now in order to guarantee the competitiveness of the German economy in the future (HC 15/129, p. 11694: 300904). As seen, economic growth and prosperity was not measured in terms of the wealth that individuals were able to accumulate on their own, but in terms of macro-economic indicators such as unemployment figures and state deficits. People were assumed to agree with such a view that policy-makers were actively steering the economy through good and bad times without critically challenging the political nature of such a regime, in terms of the naïve theories facilitated (aspect 1) and their distributional outcomes they entailed (aspect 2). The indirect individual-state relationship following from such a legitimisation regime came with a conception of ‘economic man’ as playing no significant role in economic outcomes. Indeed, the German state was depicted as a paternalist institution, and that the individual only needed to follow the social roles attributed to him/her. The very mentioning of the notion of the market per se was then also comparatively rare in any of the discussions mentioned.

Against the British case where the market was seen as delivering socially legitimate outcomes in its own right, the German taken-for-granted assumptions were depicting market mechanisms as requiring redistributive interventions. Such differences in the polity setup can be defined as political as they influence of how everyday economic rationality is defined, each conception marginalising other approaches. The same is true for the concrete definitions of economic agency (aspect 1). Still, both come with distributional consequences as well (2). In the German case, the categorisation of households into categories limited the choice in relation to forms of tenure, hence benefiting married families and children against individuals that had decided to life on

their own. Again, a constructivist analysis of the concrete individual-state relationships has highlighted differences not only in terms of institutional features of housing markets but also in the very ways that everyday people were supposed to make sense of such economic phenomena (Toussaint et al. 2007). As such, micro-macro complementarities are also observable in this case as a particular evolution at the level of markets were sustained by specific social constructions of the notions of markets themselves, but also of the role of the state and of the definition of the economic subject.

5 Conclusion

After chapter five had investigated the conceptions of the individual economic agent and particular market understandings for the British case, this chapter has applied the same framework and questions to the German case. Utilising parliamentary debates, it has operationalised the theoretical elements developed in chapters three and four in order to point towards an additional level of varieties of models of capitalism. This has been achieved through an analysis of coordinative discourse and utterances that have constructed particular meanings of the state as a set of policies, of markets and of economic agency itself. In other words, it has addressed the issues highlighted in the literature review that has claimed to provide an additional level of political readings of capitalist variety. By investigating the concrete individual-state relationships that were prevalent in the German home ownership policies at the time, this investigation has showcased the ways in which the individual was integrated into a larger set of economic processes.

As developed in the introduction, the comparative logic was introduced to illustrate the political nature of naïve theories as constitutive to economic regimes and as sidelining alternatives accounts of markets and economic agency. Whereas this chapter could also be read on its own terms, the main interest in the thesis is constructivist in nature by carving out how in two different individual-state setups, very similar economic realities were interpreted in rather diverse ways. By exposing the diverse form of economic rationality facilitated through naïve theories, it has also exemplified the concept of axio-rationality. Indeed, this can also be captured with the term of micro-macro complementarities, meaning that the ways that economic phenomena are organised in a certain socio-economic context entail sets of specific understandings of such modes of organisation. As the thesis introduces the political aspects of naïve theories, this chapter has been investigating the relationships between the individual and the state in relation to the reproduction of particular understandings of economic mechanisms such as market processes.

In terms of contents, the German ‘home ownership allowance’ (Eigenheimzulage, EHZ) has brought to light naïve theories about the ideal-typical individual, the market and the rationale for state intervention that significantly differ from those outlined in the British chapter. Ownership was only supposed to be the preferred choice of tenure for a limited sub-set of the population, for families with children. Because market mechanisms of housing supply were hindering families to move into the ownership market and that the state officials judged that they were entitled to do so due to reasons of social positioning, the policies identified this affordability gap. State interventions were targeting aid from the beginning, with the underlying rationale being one of quasi-direct provision of home ownership. An owned home was meant

to offer more appropriate conditions for family life in terms of its materiality and its ability to transfer wealth to the next generation. Hence public support was conditional upon individuals contributing to the reproduction of social conditions, not so much upon their purely financial capabilities.

The concept of the market as such was not an essential element in such an argumentation. It was only seen as being inadequate in fulfilling all the functions German state policies and society expected it to do. Overall then, state policies were much more concerned with intervening directly than using the market as a mechanism to reach socially acceptable ends. As individual agency was depicted in passive terms, the ownership market was not seen as a domain for individuals to maximise wealth through rational choices, but only as a way to distribute housing. The technical details of building regulations and features in the form of the ecological bonuses within the EHZ were seen by policy-makers as a way to popularise the desires for a quality built environment (Habermas 1970, 120). The materiality of tenure was hence valued over their financial aspects. Such naïve theories matched with interpretations of markets as spaces for state intervention to achieve macro-economic concerns like supporting the lagging building industry.

Indeed, the economy and the cycle of economic activity were concepts that ranged high in parliamentary debates. Very quickly after its initial design, the EHZ moved away from serving the specific interests of a particular socio-economic group and shifted to sustain the level of employment in the building industry. Even though such introductions undermined the very affordability focus, German policy-makers consented to them on the grounds that they were necessary to keep the economy in

good health. The political implications that state support was actively re-channelled away from families and into the hands of construction workers were not discussed, neither within policy-makers nor with the general public. The same applied when the EHZ was cancelled in favour for an investment programme that was deemed to set the German economy on a steeper growth path that bypassed any version of active economic agency. Overall then, the German individual-state relationship can be characterised by a high degree of state authority and state management of the economy in the name of the collectivity.

As the financial aspects of home ownership were marginal in relation to the EHZ when discussing the individual, the next chapter investigates how the German rationale for state intervention entailed a way of how individuals could access ownership. An analysis of parliamentary debates and policies in the mortgage market highlights the specific ways in which individual was depicted as financial subjects. Again, such an investigation, based on constructivist premises, brings out not only a certain understanding of the mortgage market but also comes with political content.

Chapter 8: Naïve Theories of the German Mortgage Market

1 Introduction

The previous chapter has explained in some detail how in the German case initial affordability issues framed in individual terms became compromised with the introduction of macro-economic concerns. These then undermined the very individual financial focal points set out in the first place. To link back to the theoretical parts of the thesis, the way in which economic agents were addressed in parliamentary debates was influenced by conceptions or taken-for-granted assumptions of what housing markets were supposed to achieve, and of what role the economic subject was meant to play within them. In the beginning, the affordability concerns were generated out of a reasoning that all members of society were equally entitled to access the tenure they preferred, renters and home owners alike. However, very quickly it became clear that the German state officials were not interpreting the ownership market in these terms, effectively adopting a definition of affordability that was significantly different from that one put forward by their British counterparts. In other words, once this alternative definition of affordability was enacted, policy-makers were able to justify the introduction of macro-economic issues as they were not directly seen as in opposition to the affordability criterion, even if they partially were. It is also worth remembering that the micro-economic logic reappeared in arguments to end the EHZ.

In the German case, home ownership was only seen as the default tenure for married couples and families. This chapter is then concerned more thoroughly with the financial aspects of German home ownership policies between 1997 and 2007.

The rationale for state intervention not only addressed the openly acknowledged social dimensions in the notion of affordability by restricting the whole debate to

families with children when it came to the distribution of funds in respect to its ownership programmes. At the same time, the housing market was understood by policy-makers as fulfilling functions outside the realm of the provision of shelter (Bachofner 2008, 19), in terms of the reproduction of the wider social order. This was also true in the British case where the latter was regarded as a potential mechanism to accumulate wealth, but in the German context the additional roles had little relationship with such financial issues of end consumers. The introduction of a strong ecological component and the worries with employment figures in the building industry were exemplary as such macro-economic concerns (Hecken 2010, 59) that came into a policy designed to reduce the affordability issue. Such observations highlight some of the deeply political features of the exact individual-state relationship in relation to German housing policies. As outlined in the theoretical parts of the thesis, the previous chapter has depicted particular understandings by policy-makers, of the state as a legitimated institution and as a set of policies, of the market and of the economic agent within this context.

As outlined in chapter four, as individual-state relationship plays out in a larger field of legitimisation regimes, similarities between naïve theories in relation to the individual between the housing and the mortgage market are assumed. Such a statement has been validated for the British case where the logic of accumulation of individual wealth has been a feature of the way policy-makers have conceptualised economic agency in the sphere of housing and of mortgages. Indeed, financial issues formed the conditions upon which housing markets were functionally successful. For the German case then, the legitimisation rationale of the EHZ has shifted from helping individuals to overcome the financial barriers to access the home ownership market to

supporting the building industry and catering for more general needs of societal reproduction. The justificatory discourse of this change has been traced in the previous chapter and is in line with the notion of output legitimacy as discussed in chapter four. However, that also meant that issues of financial affordability were rephrased. Indeed, when it comes to the financial sides of the ownership policies, it is important to highlight that in such a context where state action was framed in terms of output and not to the individual per se, the very notion of affordability changed in definitional nature.

This chapter hence explains the ways in which financial issues in the housing market were addressed and made sense of, both in relation to the conceptions of the German home ownership market and the British case as well. Indeed, the differences with the latter are also underlined as the comparative method is used to empirically demonstrate the political nature of naïve theories as excluding alternative patterns of interpretation. Basically, the German conceptions excluded the British ones and vice versa, even if that was not always a conscious process. To relate back to the ontological and methodological framework here, the open-ended nature of the human mind as well as the constructivist approach to analysing the closure of this indeterminacy are able to bring out such additional political sides of how (parts of) comparative capitalism work. At the same time, they also point to the micro-macro complementarities, as a certain regime being based on set of naïve theories coherent with economic outcomes.

In the British example, the housing efforts were with democratising market entry criteria to lower-income households. The notion of affordability was hence interpreted in terms of accessibility, in relation to the amount of assets individuals were holding allowing them to overcome the entry barriers (Milner and Madigan 2001, 77). The discourse of “helping people into ownership” is exemplary here as it provided an explanation, or naïve theory, of how state intervention could entail the financial means that then allowed the individual to play out his/her agency in a market setting. The drive to include further agents into property-owning, independently from their social status, only made sense once a particular set of naïve theories in relation to ownership was adopted, one that depicted the latter in positive financial terms for all members of society (Malpass 2005, 109). However, as has been outlined in the previous chapter, the German policy-makers took an approach to housing that was based on social categorisations where they depicted ownership as the preferred tenure for a limited group only, mainly families with children, not as a tenure that all citizens should attempt to enter (Behring and Helbrecht 2002, 165). In such a context of restricted demand through social delimitations imposed by the moral depictions of coordinative discourse, the relation between housing per se and its financial arm took on a different role. It is the latter that this chapter investigates and finds a language that is considerably different from the one that made up the British policy story found in the previous respective chapters.

These initial comments start to draw out the social and moral conceptions of wealth accumulation related to the home ownership market in Germany, hence underlining the individual subjectivities inherent in mortgage market policies between 1997 and 2007. In line with the varieties theme outlined from the beginning of the thesis, this

chapter investigates how conceptions of market mechanisms and of state interventions were differently framed in a setting where housing itself was not seen as a central economic variable for individual households. Following a constructivist account, this again points to micro-macro complementarities in the sense that specific socio-economic environments of individual-state relationships entail particular individual subjectivities. As such, the concept relates back to how taken-for-granted assumptions narrow down the policy field and hence do violence to alternative policy tools and alternative naïve theories. A conception of affordability as conceptualised in the British case would be impossible in the German context as it does not match with either the conceptions of policy-makers of what the owned house is meant to be, neither with the axio-rationality of the economic agent that was put forward. Again then, the meaningful context is central to the way that actors rationalise i.e. make sense of economic phenomena.

More generally, in terms of the contribution to the literature, the exploration of the theme of German mortgage policies in opposition to those in the UK can be read in a double way. On the one hand, it empirically addresses an economic issue from the point of view of the individual-state relationship. As such it is once again another exposition of how the suggested constructivist framework can be operationalised and how it delivers empirical results that do actually highlight the additional political aspects of economic regimes. Second, this chapter can also be read on its own as investigating the understandings of financial issues in German mortgage markets in relation to the ideal-typical 'economic man'. This chapter then comes in three parts. First it explores the issue of saving incentivisation and revisits parts of the EHZ as being part of a wider savings programme. This also feeds into an alternative notion of

affordability as was hinted at already. The next section focuses on the individual and highlights in which ways it was (or not) financialised according to certain principles that follow from macro-economic concerns. As in the British chapter, the exact definition of markets comes in here. Finally, the conditions for a successful housing market are highlighted in a way that goes beyond those that are strictly financial in themselves.

2 Social Aspects in German Savings Conceptions

Drawing from the reflections on affordability presented above, this section shortly reviews the initial definition of affordability as presented by the ‘expert commission on housing policy’ led by acclaimed economist Prof. Sinn (13/159, 301294). First of all, it is noticeable that the report acknowledges that

(I)nvestments into housing markets, as regards the building of new homes and the modernisation of dwellings, are often much less influenced by strict calculations of profitability as might be assumed. (13/159, 301294, p.27)

At the same time it also mentions that “the financial burden on the household oftentimes becomes the touchstone” (p. 27), meaning that in the end financial considerations do play a considerable role in the decision to enter the ownership market. The situation hence described is one where individuals do not calculate their financial returns from a housing investment, where they do not use it as a way to accumulate wealth, but where their financial situation limits the acquisition of the good in the first place. Such a conception followed from the perception that housing was a consumer good (p. 198), one whose value slowly vanishes as it is used. This is

in direct opposition to investment goods that allow for financial returns beyond their primary functions, and even appreciation (Wiedemann and Walsh 2000).

But even with such a conceptualisation of housing, the commission went on with a comparative analysis between the costs that renters and home owners faced (p. 31) before coming to the conclusion that renting was the favoured tenure once tax considerations were taken into account (pp.197 and 207). This was then interpreted as the result of a political involvement into market processes that such created distortions, hence hindered the free adaptation of flexible price mechanisms (p. 37), just as in the British case with house prices. These distortions were interpreted as being unfair. The issue with affordability was limited to the mere accessibility of ownership as a mode of tenure, not as a way to accumulate wealth. That is also why the arguments presented were depicting existing policies as socially unfair (13/1312, 100595, p.1), in the sense that they rendered it unnecessarily hard for families with children to access the tenure that matched best with their needs (Sigismund 2003). The problem was not that the home ownership market was perceived to operate in an unfair way for its financial outcomes, but for its social resultants in terms of the distribution of housing as such. As has been described in the previous chapter, the logic for bringing additional people into their owned homes was not linked to purely monetary terms but to the social positioning of the individuals in question (Behring and Helbrecht 2002, 161).

But even though social considerations were interjected into the discussion, the central starting assumptions about economic agency were comparable to the ones promoted

in the British case. The analysis started with a model of individual preferences and utility-maximising agents that take the decision between renting and owning according to a larger set of reasons, their financial situations being one of them (3/159, 301294). In this case, the report was putting forward an investigation that regarded the individual as the central element in housing choices. This was a reading that was only partly taken on by the German government when it was designing its version of the EHZ, as seen in the previous chapter. Indeed, I argue that such a strong version of economic agency was incompatible with views of policy-makers that state policies had the ultimate function to manage economic outcomes, hence limiting active agential behaviour as seen in the British case (Mayntz and Scharpf 2005). However, the legitimisation mechanism in relation to affordability deserves additional attention.

Indeed, what is essential here is the definition, and hence the political construction of the meaningful content of the notion of the affordability issue. In the British context with its direct individual-state relationship, each individual was regarded as a potential home owner. Phrased differently, there was only one form of economic agency applicable to all members of society as each of them was assumed to maximise financial wealth over their lifetime. However, in the German environment where the arguments were framed according to social positions, multiple rationales were operationalised. As home ownership was depicted as a way to cater for the special social needs and desires of families, only the latter fully qualified for state aid with accessing this class of tenure. Affordability then was only circumscribed to those individuals that fell into the social category of family households. Sure, the notion also carried financial elements at its core, but the reasons for supporting certain

individuals were different from those in the UK. It is in this sense that the rationale for state intervention in the mortgage market was still linked to the home ownership market, but it was legitimated in a different way (Raffelhüschen and Schoder 2004, 11). Again, these differences are political as each of them excludes the other from its domain of what is possible in policy terms.

Indeed, in the conclusion about the perceptions of the German ownership market, a major comparative study mentioned that

The decision about the creation of proprietary is a matter of social status and style of living. Consumers not only optimise their saving ratio or engage in asset-management. They primarily wonder who they are and how they would like to live. Those who are ready to allow themselves the own four walls needs to be able to constantly save in other areas. (Behring and Helbrecht 2002, 169)

Hence, financial concerns might be very different according to diverse social groups in Germany, something that the report under Dr. Sinn was not picking up on as it was advancing a perspective more focussed upon the individual independent of his/her social standing. It becomes obvious that the German rationale for state intervention in the home ownership market, through the financial features of its housing policy, was reproducing social distinctions, categorisations that were legitimated in relation to issues of societal reproduction.

Following from such perceptions, the state policies were seen as helping those individuals who qualified for ownership on a social basis but did not have the financial means to access it. Ultimately, it was a “question of fairness” (13/159,

301294, p. 199) and one where state interventions into the market were proceeded with in order to produce a “correction to the lack of fairness” (p. 200), a fairness that had been defined in the terms of policy-makers themselves but had filtered down into the naïve theories of economic agents. But as housing was not seen in terms of a marketplace where returns on investments could be executed, the public policy simply provided a service for disfavoured individuals in the tradition of the German welfare state (p. 172; Kleinman 1996; Ryner 2003, 202). The German policies were then not intervening into the market as was the case in the UK, but it was simply complying with the social duties of the welfare state (Briggs 2006, 21). The market logic was disbanded from the housing domain in the first place through the categorisation effort, so that it was not purely financial seasonings that led to the definition of affordability. More generally, the policy rationale of the EHZ then was not one of marketised aid, but one where state resources were directly allocated without passing through economic mechanisms of additional wealth generation (13/4712, 230596 p. 2).

Indeed, even though the Sinn report was in favour of a market-approach, German policy-makers were also warned by the commission that such market procedures and price trajectories would inevitably be characterised by differential interests, hence would display political aspects.

Households that live in attractive houses with affordable rents (...) have interests that scarcity translates as slowly as possible into price increases. Current home owners that want to move into bigger or qualitatively better houses (...) need the expansion of houses offered. (13/159, 301294, p.36)

In its reply to the report, the German government side-lined such openly political issues in terms of publicly giving priority to some groups over others by not explicitly stating the deeper social argument for its categorisation at all when it came to access to housing. In other words, the categorisation effort was not challenges as being a political move. At the same time, as it was not interested in acting upon price trajectories. Praising its strong renting market, it did not question the distinction between families and other members of society that did not qualify for home ownership (273/95, 090595; Demary et al. 2009, 76) and hence the affordability issue was not highly politicised in general.

Again in its response to the report of the commission, the government did not frame any of the issues in individual terms, and it is here where it crucially diverted from the micro-economic approach as set out by the commission. The language used was indicative of the fact that even though housing was ultimately about people, policies were to be handled as a top-down approach (273/95, 090595, p.2). Instead of mentioning the individual as such, he/she was seen as constitutive of a member of a larger social group.

The federal government sees itself reinforced to declare the promotion of housing ownership – above all for families with children – as an eminent aspect and to work towards cost-efficient building. (273/95, 090595, p. 4).

The focus was on how state intervention could meet the social demands of the population and of specific categories within it. At the same time, considerable attention was paid to the building process, hence not so much on how the individual was supposed to contribute to the solution of the problem. This matched with what

has been investigated in the previous chapter as far as the introduction of the strong building industry component went (14/36, 230599, p. 2937; 14/4379, 241000). Again, taken-for-granted assumptions of policy-makers did not only influence the selection of policy instruments but were also integral to the German individual-state relationship. Indeed, the targets as well as the content of policies were influenced by the conceptions of the state as an institution and of its role in relationship with the ideal-typical individual. As such, the constructivist approach highlights the varieties in individual-state relations and does not take the state as a universal concept.

This also entailed that families were meant to save more than other groups in society. As the acquisition of an owned house was estimated to be a considerable financial burden (13/159, 301294, p. 157 and 160; Demary et al. 2009, 109), pre-saving and post-saving were issues that families had to get to grips with (13/159, p. 160 and 171; 273/95, 090595, p.13). In this sense, the EHZ was itself a savings policy, targeted at families with children.

Independent of the fact whether the aid facilitates the ‘pre-saving’ or the ‘post-saving’, it entails an enhancement of the disposition to save and a change in the attitude towards ownership. It should in all cases take into account the precautionary motive when acquiring home ownership as well as the necessity of a minimal amount of the borrower’s own resources (expert commission on housing policy: 13/159, p. 171)

The theme of financial prudence and of avoidance of debt were central here (291/95, p. 14; Ertürk et al. 2005), especially as regards the necessity to save before acquiring housing property. The concept of ‘Ansparphase’ (‘pre-saving-period’) was central

here, meaning a long phase of time where the individual saves for the very purpose of accessing an owned home (291/95, 180595, p. 1 and 12; Baur 2000). The German coordinative discourse was open about households being required to bring a certain amount of savings to the table when either building a new house or acquiring one from the stock (13/15001, 290595, p. 2; 14/8687, 220302, p. 8).

In other words, financial considerations came second to the desires of the individual, identifying him/herself as a member of a particular social group first and hence entitled to the owning of accommodation (13/2771, 261095). In this regard, financial speculation was a practice that the German policy-makers prevented through legislation in the sense that it introduced three requirements for the policy aid (291/95, 180595, p. 18; 13/2506, 270995, p. 12; Schulmeister 2009). First, the acquired home had to be used by the person who had benefited from the policy, second it could only be sold after a longer period of time (498/95, 110895, p.3), and third the building promotion could only be granted once in a lifetime (498/95, 110895, p.29). At the same time, parliamentary debates were explicit in their reticence against high debt ratios and the requirements for considerable down-payments to be made (498/95, 110895, p.30; 13/2784, 261095, p. 31). Again, the topic of financial prudence was underlying these discussions. Interesting in this context, especially as compared to the British case, is that whereas the savings rates of UK households significantly dropped between 1997 and 2007 (from a bit over 9% to close to 2%) , the German ratio stayed stable at a much higher level at over 16% (Eurostat 2009, 2).

The instance where financial issues did shine through was the so-called ‘Wohnungsbau-Prämiengesetz’ (‘house-building premium law’), again regarded as a direct social service (498/95, 220995, p. 17; 13/159, 301294, p.168) with a strong focus on savings. Indeed, first legislated in 1952 (Wohnungsbau-prämiengesetz, p.1), it supported the renovation of the German housing context and was very much focussed on the building side. In this regard, it guaranteed additional funds to those individuals that fell below a certain income limit and contributed to the rebuilding effort. The version of 1997 highlights these traits, and supports potential home owners with their financial burdens (291/95, 180595, p. 22; 498/95, 110895, p. 1). However, the conditions attached to such aid were that the savings plan was envisaging constant saving holdbacks (‘Sparrate’; Wohnungsbau-prämiengesetz, p.1). At the same time, the accumulation of capital had to be immediately used for the very purpose of building houses. As with the EHZ, the bonus could only be granted once in an individual’s lifetime (p.2). Also, the intermediary financial institution had to be a building association, hence reinforcing the link between housing and the actual building effort (p.3).

What is important to the argument here is the way in which these financial issues were framed in relation to the individual-state relationship. Affordability was not so much seen as an issue that individuals face, but as a concern to the overall state of the economy. The end pursued was of general centrality to the way German society operates. Indeed, the requirement to create enough buildings to accommodate its population was an objective of historic importance in the German context (Behring and Helbrecht 2002, 159). Individuals were incentivised to contribute their part to such a goal that was not only significant to themselves, but that affected the more general

macro-economic outcome as well as the reproductive capacity of the German society (13/159, 301294, p. 199, 209, 217). Compared to the British case where housing was regarded as a playing field for individuals to accumulate wealth in their own name, the German rationale was embedded into a larger context of social concerns that the state managed (14/163, 040401, p. 15907). Again, this matched the ‘discourse of embedded capitalism’ found to be at the origins of the German model of capitalism (Lehmbruch 2001, 39).

At the same time, such findings are also in line with the commentary on the indirect individual-state relationship as state interventions were not legitimated in relation to the individual him/herself but as regards the social groups that constitute its population. The target of policy-making was hence different from the British case, but the content of state policies also differed. These observations then highlights the political nature of naïve theories as they demonstrate that the same economic phenomena can be interpreted very differently to the indeterminate mind as developed in chapter three. At the same time the political features also extend to the legitimization regime of the individual-state relationship. The next section investigates the type of economic agency that followed from such a reading and looks at how the market was operationalised in such a meaningful environment. Overall, the notion of ‘meaning’ is central to the thesis as it allows for the construction of different interpretations of economic phenomena (aspect 1 of the political) that then come with particular understandings of ‘good’ and ‘bad’ (aspect 2; Abdelal et al. 2010, 6). The variability of meanings not only justifies the approach set out in the thesis, but more importantly also points to additional layers of the political in economic regimes.

3 The Making of the Non-Financialised Subject

In its reaction to the report that offered some room for an active understanding of economic agency as it started from the individual as taking decisions on his/her own, the German government was most eager to reiterate points about the social relevance for helping families into ownership as a one-off exercise (273/95, 090595, p. 4) even if it spent relatively little effort in explaining the mechanisms of how it would pragmatically “help to overcome difficulties with raising credit” (p.7). Instead it was focussing on underlining the social legitimization for the aid in the first place. This was again done with reference to larger societal issues.

The federal government sees the house building policies as an expression of an active family policy as well as of consequently applied policies in the domains of ownership and private wealth for large population strata. (p.9)

Thus, apart from reinforcing the special needs of families in terms of housing, it such a coordinative discourse connected the latter to their more extensive financial requirements (Statistisches Bundesamt 2002). If the EHZ was partly a policy to support families, then it also reinforced certain naïve theories in how the latter should ideal-typically behave, especially as far financial practices went. Even though these prescriptions were not explicit, the policy discussions still linked certain patterns of behaviour with the subgroup of families. Interestingly, these were also carried over into a discourse of help, however significantly different from the British one described beforehand.

Even though the report was mentioning ‘savings incentives’ (13/159, 301294, p. 199), it also stated the principle of ‘equality of burden’ in the sense that all individuals

should only bear the financial charge they deserve in relation to their social position (p. 217). The logic for state intervention was related to the socially unfair conditions that some families were undergoing. As the latter were judged to have additional needs in terms of retirement arrangement (p. 214), an owned house would help them accumulate wealth that could be transferred to the next generation (13/159, 301294, p. 159; 13/1501, 290595, p. 2; 15/33, 061102). It is important to notice though that this rationale of deserving was not full explicit, it was hence taken for granted and unchallenged. Again, this was an indication that the social terms upon which German policy was handling the financial aspects of housing policy were engrained not only into assumptions of policy -makers but also into the naïve theories that was to be held by economic agent him/herself. This was the case to a degree that did not require further legitimation (273/95,090595, p.12). The rationale of helping individuals was direct, not an opening of opportunities for self-help as in the British case. Again, as the market was dismissed as an unfit policy tool in this case, state aid was targeted at solving the identified affordability concerns in an unmediated process. As seen in the last chapter, this was only the rationale for state intervention in the very beginning of the EHZ.

Indeed, the discourse of help in the German parliamentary debates was one of “help with negotiating accessibility issues”, not one of “help to negotiate” them. It was not a method to make individuals fit to play market dynamics to their own profit, but one where state policies directly provided services, not mere opportunities. As has been seen before when the report was highlighting the deeply political tensions that market processes would entail, the latter were deemed unfit for the matter of housing, as housing was too important a societal issue to be distributed through the market

channel. Indeed, the notion of a home ownership market made no sense in relation to the naïve theories in the German context where the financial elements were not framed in individual terms either. This is then an example of micro-macro complementarities, where a particular definition of the ‘economic man’ is only compatible with a specific kind of state interventions that are in line with such an understanding. It is exactly in these issues that a focus on the individual-state relationship is most relevant.

As affordability issues were only seen as an issue for a particular group of people who the state could then come in for, the very concept of prices was one that was to be controlled from above (498/95, 110895, p. 31). As such, house prices were never a topic that was openly discussed in terms of the individual, if it was it was related to other macro-economic issues like the building industry (13/11013, 170698, p. 3; 14/7124, 091001). In terms of the way in which economic agency was depicted then, the very conceptions of home ownership hindered the development of a strong focus on individual pro-activity in the mortgage market. As seen before, the only thing that potential homebuyers were asked to do was to save up money that they could then use to finance their acquisition. As such, financial concerns as well as elements of market processes were deliberately kept away from the individual (13/8802, 221097, p. 83). This perspective was very different from the British one where market mechanisms were seen as giving people the opportunities to generate wealth for their own good. This is then an example where the constructivist method is able to not only carve out differential definitions of the economic subject and of the market, but also where it hints at the political aspects of such varieties. Indeed, on a mere theoretically level

each of these sets of conceptions excludes the other (aspect 1), but also lead to differences in distributional outcomes at the macro-economic level (aspect 4).

In terms of naïve theories though, this is not to say that German state policies did not promoted certain patterns of behaviour. I have argued beforehand that families were supposed to save in higher quantities. Policies actively supported them in such pursuits, also in the form of the EHZ that hence was itself a financial policy.

The ‘Eigenheimzulage’-law is a steering norm. Especially young families with children should be motivated to create home ownership. The EHZ should appease the financial burdens that are linked to the construction or the acquisition of a dwelling. (498/95, 110895, p. 3)

By directly helping potential home owners in their saving efforts, the German policy-makers reflected a strong connotation between ownership, certain forms of life and the financial practice of saving. However, they also limited this naïve theory to families, or married individuals that were thinking of creating their own family. As such, the financial resources were surely allocated for housing purposes. The coordinative discourse was explicit in its social component. At the same time, once again the focus on the materiality of the dwelling was apparent as well, matching the way in which housing was linked to the construction industry (13/6318, 211196). Again, social and material aspects were overpowering immediate interests of the individual per se, financial or other. In other words, even though the individual was to be helped, this was only a particular individual and one that chosen according to its social and marital status, not for its personal achievements in terms of labour for

instance. In this sense, the fact of creating a family was seen as a personal achievement indeed.

The chapter then argues that the naïve theories in relation to the financial behaviour carried weight that went beyond the economic sphere and impacted upon the social organisation of society. More specifically, it claims that high entry barriers into the ownership market and relatively conservative mortgage conditions were acting as a reinforcing the moral standards according to which state policy was categorising individuals to be worthy of support (Luo 2010; Helbrecht and Geilenkeuser 2012). Indeed, a mortgage was calculated in a way as to figure in potential downward fluctuations in the price of housing property (Demary et al. 2009, 109). In other words, keeping ownership hard to achieve then provided more leverage to the discourse of aid enacted through housing policies. Just as in the British case where state interventions into the market were justified as helping the latter to perform in the interest of the individual, the German rationale for state intervention influenced upon the distribution of home ownership by helping only some individuals into this tenure, and not others. In general, the focus on macro-economic issues (13/5960, 051196) and on outputs was taken as a justification for the social categorisations in relation to the collectively (14/1198, 210699, p. 3). Such a policy approach also fed into a limited understanding of free and active agency at the individual level (Hecken 2010, 120), at the same time that it made explicit links between the sphere of mortgage and housing markets. In sociological terminology, the EHZ must be investigated as not merely having the manifest function of closing the affordability gap, but also of covering the latent function of reproducing a particular social order (Merton 1957, 68).

This perspective was extended when state policies were protecting the financial wealth of families that wanted to enter ownership from interest rate volatility (13/159, 301294, p. 172). As such, public funds were used to decouple individuals from the market, whereas the British discourse had hailed the market and active and well-informed agency as a matter to achieve its social ends. In Germany, market processes were then kept away from the wider functions that ownership was supposed to fulfil. In this sense, the state policies were protecting the individual from market processes by minimising the agential qualities that it was inferring into potential home owners. This matches with the earlier comments on how markets necessarily come with political tensions. Against efforts to make individuals fit for the market, as observed in the British case, German agents were presented with a conception that when it comes to housing, the sole pursuing of private interests was not in line with wider societal ends that German policy-makers had in mind (Beckert 2002). As such, the kind of axio-rationality offered was one that placed the individual financial desires in opposition with society, not in line with it as in the UK.

As demonstrated by the constructivist approach operationalised here, the framing of economic issues that relate to the financial side of housing policy was exemplary in this regard. Instead of expressing financial issues in terms of problems that are directly related to the everyday life of the individual, they were regarded as variants of macro-economic concerns. In general, parliamentary discussions were reporting conceptions of economic man in relation to wider macro-economic resultants, underlining the output-driven features of the German individual-state relationship (Leung 2004). The strong focus on the creation of ‘housing space’ (498/95, 110895, p. 2) instead of on the financial constraints that households were facing in realising

their own preferences was just one instance. In a discussion about the ‘taxation aspects of the promotion of building of housing’, the main issues that were raised related to the building industry and the type of houses built (13/3446, p. 3), as well as to the specific period in the economic cycle (13/3446, p. 10). These represent examples of how the initial micro-focus was set aside for a framing of financial issues through a top-down lens. As such, a question about financial elements linked to the insurance industry was answered with a short “no” (13/3446, 090196, p. 13). It was almost as if individual concerns of housing credit availability were irrelevant when they were not connected to more general points on the agenda (de Bandt et al. 2010, 213)

At other times, the top-down approach of the German policy-makers inhibited a micro-focus. Instead they were more interested in managing the overall housing situation by making sure the different sectors, among them the ownership domain, were functioning properly as such (13/4533, 070596, p. 7) than in the exact results this implied for the individual and his/her financial situation. Indeed, as the question of the public deficit was growing with time, individual concerns were even more marginalised (13/7710, 160597, p. 5). At best, financial concerns of individuals were seen as an add-on that had to be dealt with as a last point, but not as central to the policy design (13/8802, 220197, p. 3). As regards the enhanced savings objective of families for instance, it was related to macro-economic stability and as a way to protect the economy against crises (273/95, 090595, p. 14). Progressively then, state finances became to dominate private concerns, especially as statistics of shrinking demographics pointed towards the inadequacy of a costly home ownership policy (13/8802, 221097, p. 17; HC 14/9344: 110602; 14/242, 130602, p. 24280). As regards

the individual-state relationship, it was not legitimated through a desire of members of parliament to maximise the wealth of the individual agent, but to ensure the efficient workings of the economic socio-economic system in its totality. As such, the making of the individual was only rarely mentioned in policy debates.

At the same time, it was argued (by the PDS) that a reduction of income limits of the EHZ,

would not entail any accommodation or owned house to be built less (...). To the very contrary, an increase in the children component (...) would benefit the building industry that is in crisis at the moment. (13/10295, 010498, p. 3)

Again then, discussion points that had no link with the wealth of the individual took over in relation to the savings incentives in the first place. Instead of discussing the ways in which concrete households could be helped, macro-economic topics delegitimated further attention upon the individual (14/1835, 211099, p.3).

Even if a theme was opened in a micro-light, it still ended up as being framed in terms of a macro problem, as the following quotes show.

The citizens in the East mostly want - just as the citizens in the West - to live in their own four walls. Here exists a considerable catch-up potential before the average Western ratio will be attained. (14/6055, 160501, p. 2)

Since some time do we have an individualised and very differentiated society that produces very different forms of accommodation and living. We need to adjust politics to that. (F. Eichstaedt-Bohlig, 130602, p. 24284)

Even though individual concerns came up at times, they were very much regarded from an analytical perspective in order to manage them in collective terms (14/8966, 290402). In such a context of taken-for-granted conceptions of housing, parliamentary debates did not put forward an exact definition of the individual. But by failing to address such issues, they highlight how economic agency was not a concern to be included into the policy-design. Policy-makers did not consider the matter as being crucial in the way the German economic system was performing, something that was very different in the UK.

To come back to the affordability issue, it was framed in such a way as to depict economic agency in a passive light, one that did not attribute primacy to the individual itself but that left space for externally imposed categorisations (15/459, 280103, p. 6; Bachofner 2008, 72). This relates back to the ways in which state policies facilitate certain understandings, or how they (temporarily) close off the indeterminate features mind in humans. As such, the German coordinative discourse promoted a subjectivity according to which it was not the individual him/herself that decided how to best play market volatility, but it were state initiatives that minimised the latter through a classification that depleted the ownership market from considerable price fluctuations in the first place (Kim and Renaud 2009). It is here where individual naïve theories and market outcomes come together. As housing was regarded as a right, not so much the right to ownership, and as policy-makers understood the state as an institution providing adequate accommodation to the population, there was no drive to inflate the number of market ownership market participants. Once housing was framed in terms of supplying the service of shelter and not of financial investment (13/2357, 200995, p. 4), the very notion of the

democratisation of ownership was not applicable to such a set of naïve theories as it was in the UK. At the same time, the moral connotations of such a discourse not only restricted the choice of financial products and of tenure for the population, but also limited the level of agential capacity desired (Demary et al. 2009, viii; Berry 2010, 140). Contrary to what has been observed in the British case, German housing policies had a very limited discourse on individual choice and responsibility.

The differentials in the making of economic agency were possibly the main difference between the cases analysed in this thesis, and it relates back not only to the theoretical chapters but also to the literature review. It has been argued that current accounts of capitalist diversity tend to present the notion of the state as universal, the exact definition of what such a state is supposed to be not being fully considered. That is why the notion of individual-state is so central to the thesis. It allows the scholar to draw out differential relationships between the ideal-typical individual and the state, in form and content. This method has shown how differently the British and German rationale for state intervention positioned the role of policy-making and of the market in relation to the members of the respective economic orders.

These differences in the treatment of the individual as an economic agent are political in the sense that they present two options of how to make sense of economic mechanisms according to diverse sets of naïve theories. They both offer coherent explanations but are still very different in the way of how they close the indeterminacy of the mind, hence one excluding the other of the domain of the possible (aspect 1). At the same time, the notion of the political then also relates to the

ways in which life styles are depicted in moral terms (aspect 2) and how they are functional in the distribution of state aid between certain individuals or groups as in the German case (aspect 4). Indeed, the strong focus on social positions instead of a more close analysis of individual criteria makes German housing policy vulnerable to claims that it is acting counter to liberal ideals of individual social progress by imposing the requirements of social reproduction above individual opportunities for all.

4 The Non-Financial Conditions of Housing Markets

The German understanding of the individual-state relationship and of economic agency subsequently was consistent with the steering analogy, where state policies help individuals in a way that furthered the macro-economic ends that policy-makers had decided would best serve the overall interests of its population (Mayntz and Scharpf 1995). As this section describes in more detail, the cancellation of the EHZ was the result of changes in the economic priorities of state intervention (620/04, 130804, p.2). Before that however, the example of the “energy identification pass” (‘Energieausweis’) is especially interesting in regard to the British information policy on housing transfers (HIPs). It demonstrates again how very similar policies can be framed in very different ways, depending on the concrete individual-state relationship, and how financial aspects were secondary in the German context.

The German policy-making motive for enacting a way to certify the energetic features of buildings had nothing to do with market procedures that were deemed inefficient,

but was related to the signing of the Kyoto protocol (15/4506, 141204, p. 1, also 14/4075, 120900; Weglage 2010). In line with European Union legislation, the parliament argued that it was necessary to invest into building innovations in order to minimise the emission of greenhouse gases (p. 2). Just as in the UK, a version of the energy certification pass had been tested before it was introduced, but the aim was to make sure the method to measure the energy needs was adequate. As such, the pass was a technical tool to ameliorate building quality, unrelated to the ways in which individuals enter ownership. In the end, the pass was meant “not only to cover a European guideline, but to achieve significant progress” (15/5849, 290605, p. 4), progress in environmental terms, not in how well-off individuals would be. This example highlights again how different individual-state relationships translated into different conceptions not only of how markets were supposed to work, but also of what public policies were meant to deliver for the individual. Whereas the policy was framed in individual terms in the UK, in Germany it was made sense of in relation to wider societal objectives. At the same time, this exposition also displays how the German economic agent was not approached as an active decision-maker in relation to its assets (Barasinska et al. 2012). Instead German action followed a rationale where outcomes were best served through a process of state management itself (15/8, 071102, p. 423) in line with the notion of output legitimacy.

A macro-economic focus went hand in hand with the motive of individual prudence (Watson 2008b), embedded into a discourse that suggested that financial aspects of the housing market involved socio-economic elements that were too important for society to be only handled through individuals operating in a market context. As such, strong attention on savings was instrumental in keeping loan-to-value ratios

comparatively low (Bachofner 2008, 143). At the same time, the way that properties were evaluated according to German law was conservative, making sure that even if the market value drops the individuals is still able to replay the mortgage (Münchau 2008, 81; see also Zysman 1983; Pollin 1995). Contrary to the British case, precautionary mechanisms were built into market processes to protect the subject if he/she had misjudged future price evolutions (Demary et al. 2009, 116). As such, they did not assume individual economic sovereignty. There were thus subjective and structural factors that reinforced the conceptions that saving was the most appropriate way to enter home ownership. Whereas in the British case, consumers had to be protected from particular market actors, the German mortgager has to be protected from the market per se.

But even though financial issues were discussed, the conditions for a functioning housing market were not seen in its financial underpinnings, but with its embeddedness into the overall economy (Chiuri and Jappelli 2003). In a very different way from the UK, the demand and supply of housing, and of home ownership, was not regarded to be a matter of individual choice in the final instance, but of state policies that had few links to private financial issues (13/2653, 111095, p. 2). As such, a “foresighted approach to housing and city policies” (14/6048, 150501, p.1) was more important than the ways in which individuals would play their role in realising them. Instead of giving priority to individual preferences that translated into free-floating market prices, statistical figures were predicted about which housing needs Germany would face in the coming years (14/6048, 150501, p.2; Desrosières 1998, 179). As home ownership fell into the logic of housing as a public good, the starting point was the general state of accommodation, not the individual (Kemeny

1995, 11). Financial concerns were of relatively minor importance as the link between finance and individual choices was not one that mattered in a context where the rationale for state intervention entailed a classification individuals into groups for their most appropriate tenure.

What came to the forefront in terms of the assumptions of ownership was an understanding that was much closer connected to the materiality of the buildings than with finance. This was best illustrated with the “building culture!” programme elaborated from 2000 onwards (Baukultur!, 2005). What is relevant for this chapter is that in this “initiative architecture and building culture”, the individual focus did shine through much stronger than in the case of the financial behavioural patterns, at least apparently. Building culture was seen as an “entitlement” or “standard of society” (‘Anspruch’), as a requirement not only for the working of the housing market, but more generally for the reproduction of the societal order. However, such a requirement could only be achieved once a certain cultural awareness about building methods was present (14/8966, 290402, p. 2). Such an awareness of quality (14/8966, 290402, p. 2) related to potential homebuilders but also the professions involved in the process like architects and city planners (14/8966, 290402, p. 3). The report also recommended that questions about the built environment be included as a module into the educational system and that teachers would be qualified in these domains (14/8966, 290402, p. 3 and 5; Baukultur!, 2005, p. 134). In general,

fundamental are the consolidation and diffusion of the quality awareness and of questions relating to the utilisation of quality-oriented techniques (14/8966, 290402, p. 4)

as they directly influenced upon the quality of life of the individual (13/7841, 050697, p. 2; 14/8966, 290402, p. 4; Baukultur! p. 6). But even though it looked like individual interests were at the forefront, and that the discourse was also mentioning everyday concerns of the individual (p. 6), it was also clear that such a focus was not the endpoint of the initiative.

Indeed, the notion of culture was to be understood as a collective form of awareness, not only one that was limited to the individual as a single being.

Building culture is not simply a private matter or a personal concern of the respective agents, but a distinctly public matter! (...) The enemies of building culture are disinterest, and particularistic thinking and acting that only refer to the own means” (Baukultur!, p. 7)

This quote exemplifies how outspoken the German policy-makers were in putting societal interests above those of individuals. At the same time, it also demonstrates a certain reticence against personal accumulation of wealth for the sake of it (Hecken 2010). For political goals to be achieved, relying upon free individuals in a market-context was not an option as it was in the British case. The logic was that once the overall society was in order, all individuals therein were satisfied. The rationale for state intervention then did not run from the micro to the macro level, but vice versa.

Private financial aspects then had only a little role to play as they put forward a flawed causal relationship between levels of analysis. The same applied to financial arguments.

Are there possibilities of resistance [to the building culture]? Does the argument of saving needs protect, or the statement that one can discuss about taste? No: culture is least of all a question of money, it is always a question of priorities. (Baukultur!, p. 7)

Individual finances were not essential in the strategy to help certain individuals as the logic was social and not based on financial criteria in the first place. Unlike in the British case, the mechanisms that were supposed to make the policy succeed were not linked to the monetary capacity of households. As the strong and equilibrated renting market providing good quality housing (Kemp and Kofner 2010), home ownership was only a more privileged form of tenure that additionally allowed for wealth accumulation (Tedeager and Helbrecht 2007; Elsinga et al. 2012). As state policies managed the supply and demand of owned houses to a certain extent, and as naïve theories were promoting a passive form of economic agency, this also meant that public policy took into account the financial requirements that different groups encountered. As such, once individuals accepted the social justifications for various tenure groups through arguments about the general good of society, individuals as such were taken out of the formula that determined policy success (Lepsius 1979). Again, this matched with the indirect individual-state relationship as far as legitimation went.

Another instance where private financial issues were seen to be secondary was in the coordinative discourse in relation to the cancellations of the EHZ. Again, what is central to the thesis is the framing of the reasons for why the policy was to be stopped.

(...) as regards the law of the EHZ. Two aims have been pursued since 1995 with this law: first a considerable activation of the creation of home ownership. That has been a success. (...) The second point was a socio-political objective, the promotion of families with children. This has also been enacted to a high degree. (W. Spanier, SPD, 15/8, 071102 p. 432)

Contrary to the British case where individual expectations (Seabrooke 2010) of financial accumulation could never reach an end point, the German policy was considered to be overdue because it had achieved the set aims. Even though such a statement in terms of policy success was debatable according to the arguments presented in the previous chapter, this was the way the German discourse framed the desire to end the EHZ. Such an end point was only able to be reached as the decision of terminating the policy was not framed as a policy tool to enrich everyday people but as a tool for the state to accommodate various social objectives.

Indeed, this kind of framing demonstrated how the legitimation process was focussed on outcome and macro-economic perspectives. First, justifying the termination of a policy that affected a large amount of individuals in terms of what it had done reflects a strong belief in the rightfulness of policy-making in outcome terms (15/1731, 151003, p.1). In other words, policy-makers were complimenting themselves for how successful they had been in designing and implementing the programme, actually something also seen in the British case. It was not about opening up financial opportunities for individuals, but about the state apparatus having redistributed resources towards a specific social group. Second, such a legitimation technique underlined the indirect individual-state relationship and reinforced the understanding of the state policies as delivering results that benefited those members of society that

deserved them according to their social positioning, not according to their capacity as an economic agent (14/8297, 200202, p. 2). In this sense, these understandings sustained the naïve theory of the individual as a recipient of public support that directly enhanced his/her situation, when deemed socially appropriate. Again, market mechanisms were absent from such a logic. Also, because the discourse was framed in macro-economic themes, an active role of the individual was denied.

In relation to the financial situations of households, such a justification could potentially be read as deeply unfair, hence political, when the British definition of the individual was adopted. This is where the distributional aspects of the political come in (aspects 2 and 4). For instance, why was it fair to support one generation of families more strongly than the next? As the rationale to allocate resources to certain households was based upon macro-economic considerations, such questions were not to be answered (Pfeiffer 2002). Personal interests were secondary, even running counter to the overall policy-making rationale. Again then, this demonstrated that through a prioritisation of the collective above the individual, financial concerns were not put onto the policy agenda in the same way that they were in the British context. Ultimately then, differences in economic taken-for-granted conceptions related back to various ways of how to define fairness and unfairness. As state intervention presented a rationale that evaluated fairness in terms of social groups, the fading out of a policy was not challenged upon individual terms.

This then also relates to the way that German policy-makers interpreted the concept of financial affordability. It was linked to differentials between social groups, not within

a group over time. Indeed, one argument against the EHZ was that it distributed an excessive amount to individuals that had no children at their charge (B. Hendricks, SPD : HC Bundesrat, 14/03/03, p. 50). Implied was that such an allocation was unfair and even inefficient. Claims about individual wealth were thus used against the policy. One could imagine that the counterargument to keep the EHZ in action had pointed against such a strict categorisation, but instead it did focus onto structural factors in the housing market (15/3714, 210904). As such, macro-economic figures were mobilised to sustain the logic of social differentiation imposed by coordinative discourse whereas claims about individuals more directly were again used to present the policy in a negative light (612/03, 280803). It is noticeable that while the topic of individual saving requirements was not mentioned in this debate, the way in which a cut in the EHZ was contributing to a reduced public budget was (612/03, 280803, p. 5). Again, state policies had set out priorities with little regard to the actual financial situation of its individual citizens.

Before coming to the conclusion, I shortly outline the political features of the findings here. I refer back to the four aspects of politics in Comparative Capitalism that have been outlined through a constructivist point of departure. First, ontologically the naïve theories about markets and economic agency that were forwarded in the coordinative discourse show that German households were not supposed to want home ownership at all costs, that only families with children were supposed to really own their own house, not on purely financial grounds, but for social reasons that related to the reproduction of the German social order. Such a categorisation, in terms of tenure and savings behaviour, was itself political as it rejected the principle of ownership democratisation (aspect 1). Indeed, it implicitly refused to justify larger state support

to all members of society. These conceptions, facilitated through coordinative discourse and actual programmes, were functional to the way the individual-state relationship as well as the legitimization regime of policies was operating. The notion of micro-macro complementarities comes back in again here. Second, this then lead to distributional differences of the moral value of married couples and families against non-married people or even households. In other words, the second aspect of the political is concerned with the normative implications in terms of the distribution of moral legitimacy.

Third, the German tradition of the welfare state entailed a focus onto macro-economic issues. The historical context of the provision of housing after World War II is indicative here (Kirchner 2006, 97). At the same time, such taken-for-granted assumptions about the role of financial aspects of housing (aspect 3) entailed policy tools that were focussed on the socio-economic management of the German society more than on the making of individual axio-rationality per se. Again then, conceptions about good governance were disallowing state policies to depict an active kind of economic rationality as was the case in the UK. Fourth, such focal points lead to a sidelining of financial aspects of households in the accession of the home ownership market and finally to the allocation of funds away from family households into companies that cater for the building of infrastructure (aspect 4). As with the hypothesis that both the German home ownership and the mortgage market would present similar rationales in terms of the legitimization of the naïve theories facilitated, this chapter has affirmed the hypothesis, but also how the financial aspects of housing were embedded into the legislative design of the EHZ and other policy initiatives.

5 Conclusion

After the chapter on the German housing market policies more narrowly, this contribution has shed light onto the financial aspects of those programmes. It has started from a discussion about the concept and conceptualisation of affordability where it was highlighted how such a notion acquired a different understanding in a context of an indirect individual-state relationship. As the home ownership market was first not seen as a space where individuals would optimise their decisions according to their preferences and financial constraints, and second not as a mechanism that, through individual economic agency, would lead to socially accepted aims, the concept did not assume a universal right to an owned house. Instead the strong social associations between ownership and families with children limited the group that was morally fully entitled to state support. At the same time, the logic was not one of wealth accumulation but one where families deserved their owned house for its spatial qualities and the opportunity it gave them to transfer wealth to the next generation, hence issues linked to wider societal concerns.

But this also meant that the individual was not addressed in terms of an active economic agent who teases out the best opportunities to maximise his/her assets through market processes. As the market was not regarded as an appropriate mechanism to allocate state aid in regard to home ownership, the rationale of support was direct, in the sense that only state policies decided who was entitled to it and then delivered it. Also, the financial help was meant to directly impact upon the financial possibilities of the household, not only to open ways that then still need exploration. As such the German state was perceived neither as a market-enabler, nor a market-

optimiser, but adopted a much more reticent approach to the way in which market mechanisms ought to be connected to housing (512/98, 280598). The reason for such a conception was policy-makers tried to keep housing away from openly political debates though ensuring adequate levels of supply of various tenures. At the same time, this chapter also mentioned that such a discourse did not effectively eliminate political issues with the financial aspects of housing policies.

Indeed, the very way in which financial issues that did relate to the everyday life of individuals were taken on by policies in macro-economic terms was indicative first of the fact that the German rationale for state intervention, just as the British one, did facilitate certain sets of the naïve theories in relation to economic agency. Second, as the latter were a particular way in which to try to temporarily fix the indeterminacy of the human mind, they acted in a political fashion. Even though the selection of conceptions to promote was not a rational decision, it still carried political weight as it excluded others. Third, the distinct sets of naïve theories that explained how the state functions as an institution in relation to the individual and vice versa were attributing differential conceptions of financial management to different social groups. Whereas there was a strong focus on saving for potential home owners, that was not the case for renters. Combined with the association between ownership and families, German housing policy depicted certain individuals in a stronger need for savings than others. In general, the categorisation of individuals according to social status was political as it imposed certain lifestyles over others.

To conclude, it is necessary to take a step back and contextualise the empirical analyses offered here not only with the theoretical framework set out in earlier chapters, but also to the gap that was identified in the literature. The critique had underlined in which sense the concept of the political was integrated into current debates on varieties of capitalist regimes that left space for complementary depictions of the political. Indeed, I have argued that the scholars tend to utilise a universal and hence context-independent notion of the state, and that more critically they turn a blind eye to the concrete relationship between the ideal-typical individual and the state as a polity. In that regard, the last four chapters, all in their specific ways, have first demonstrated how such a focus first be operationalised in case studies, and second what additional insights it might bring out when debating models of socio-economic organisation. It has been shown how such an approach that picks out the conceptions of the individual as a more or less active economic agent and of the market can add an additional layer of the political. The cases selected here form the empirical basis to the constructivist contribution to the current debates on varieties of capitalism.

Indeed, the empirical parts of the thesis have displayed the similarities and differences between parts of the British and German housing and mortgage markets. Even though it is unable to make claims about the overall state of these economic regimes because of its level of depth, the investigations make key claims in relation to an overlooked theme in that literature: the differential making of the economic agent through state intervention onto naïve theories. What is essential to highlight is how the combination between the elaboration of a theoretical framework and the systematic

operationalisation of the latter to selected cases has enabled the thesis to address the gaps in the VoC literature that have been identified beforehand.

Chapter 9: Conclusion

1 Introduction

The thesis has made a multitude of arguments, theoretical and empirical. This final chapter does not add additional content to the claims made in the preceding chapters, it is much more meant to draw the links between the various aspects of my arguments and hence to present the internal consistency of the contribution to knowledge. At the same time, this space is also an opportunity to set out the topics of investigation that could follow from the investigation here, as well as presenting reflections about the limits of my current research. As such, this concluding chapter comes in four parts. I first offer a summary of the central steps that the argument has taken in order to make a particular contribution to the literature. I then provide an overview of the main findings from the case studies and explain how they relate to the questions the thesis addresses. Finally, adding reflections of the concepts operationalised in the thesis, I set out future research directions that build on from the theoretical and empirical analysis provided here.

2 The Argument in Short

The main contribution of the thesis is to set out an ontological and methodological framework that is able to highlight elements of the political in the literature on comparative capitalisms that have so far not been fully integrated (Hall and Soskice 2001; Hancké et al. 2007). As such, the chapters need to be read as efforts to showcase why and how the analysis presented is able to carve out additional features of the political in relation to the study of various national capitalist regimes that relate not only to their distributional aspects but also to their constitutive elements (Clift

2012). In relation to such an objective, the approach put forward is constructivist, building on various accounts in social psychology (Heider 1958), social theory (Berger and Luckman 1966) and constructivist institutionalism (Schmidt 2005). However before such knowledge is referred back to, the central issue of the literature was explained.

Under the general concern with the depiction of aspects of the political domain, the critique of the Varieties of Capitalism literature (VoC) framework (Hall and Soskice 2001) has focussed on the way that such contributions tend to offer an account of capitalist diversity in terms of the various ways in which firms cooperate with other actors in order to produce goods or services that are then sold on international markets (chapter two). The level of analysis then starts from the company and is interested in how a particular set of external structures influences firm structure as well as the relations it engages in with providers, the labour market and financial actors (Hancké 2010). From there, the theory presents an explanation of institutional advantage in the global economic order (Hall and Gingerich 2004). The level of analysis engaged with is hence between the national and international spheres of activity. As such, these insights highlight the political aspects in the international distribution of firm specialisations, but they tend not to further investigate the political aspects of capitalist variety per se (Pontusson 2005).

I claim that such an analysis breaks with the focus on the firm and the attention of how firms react to external sets of incentives set by institutional structures. At the same time, such a perspective depicts national economies not only as production

systems, but enables concerns with the consumption side of the economy and the economic subject as a particular form of individual¹⁷ (Bröckling 2007). However, a study of earlier contributions to this field of investigations, even though not called VoC (Porter 1990; Albert 1993), underlines that there are ways to link the productive regime more genuinely with national actors outside the limited production sphere, like the state or social activists (Coates 2000). But again, such analyses have not so much focussed on the interaction between the definition of the individual and the wider system as they are interested in the specific features of production of national regimes. In short, I argue that the wider VoC contributions constitute a literature that is not well-equipped to dig deeper into the constitutive political aspects of capitalist diversity at the national level.

The comparative capitalism literature offers a potentially more adequate body of studies as it tends to focus on the national level and the distributional issues within economic settings (Martin 2005). As such it could offer a way into additional political features of economic models. However, as Schmidt herself mentions, there is a perceived need with such contributions to engage in efforts concentrating on ‘bringing the state back in’ (Schmidt 2009b). As such, this body offers more leverage for an analysis of the political features of national varieties of capitalist socio-economic organisation as it is interested in the quintessential political actors, the state. Indeed, through a perspective that looks into the mode of governance that various economies experience, such a mode of study brings out the distributional implications of

¹⁷ I use the notion of ‘the individual’ not as referring to one specific physical person, but to one particular kind of economic agent that is depicted through state policies. As such, such an individual constitutes an ideational and abstracted concept (von Glasersfeld 1997, 154), not a material one. It is a model held up as the ideal kind of economic agent. As such, the thesis is not interested in the agential capacities of the concrete people.

institutional differences in terms of power and economic outcomes (Goyer 2006). In this regard, the literature offers a contribution in the direction that the thesis is also interested in. By bringing out the interaction between various societal actors that goes beyond the firm, such contributions present observation to build on from in a thesis that points to the political characteristics of capitalist varieties (Mayntz and Scharpf 2005).

However, I claim that the move to bring back the state often leads to implication that the state is a universal concept that can be assumed as such. The way that the notion is operationalised certainly offers variations in the activities that states engage in according to various national contexts (Clift 2007), but it does not tend to allow for the state itself to be defined in a variety of ways in relation to the ideal-typical individual. Phrased differently, whereas state output is allowed to vary, the constitutive nature of the state is supposed to be universal (Jackson and Deeg 2008a). As such, the focus in terms of the political is again on the distributional consequences of ‘who gets what when and how’ (Lasswell 1936). However, I claim that the very definition of the state, as an institution and as a body of policies, is context-dependent and thus should be allowed to vary according to national environments. As such, I argue, the state should not be taken as a meta-theoretical notion that is given, but as a concept that is constructed in particular national contexts (Dyson 1980), and that it ought to be allowed to take on a variety of meanings (Abdelal 2010). Here it becomes obvious how a constructivist account is able to offer the theoretical toolkit to provide a more flexible notion of the state, taking into account the context-dependent features of both the definition of the state and of the economic subject. At the same time, that means that the nature of such a state is political in the sense that its definition is not a

natural product, or meta-theoretical, but a social process in the making (Desrosières 1998).

Extending such a perspective, I claim that a constructivist account of varieties of capitalism is able to go beyond the distributional aspects of the political in this field of studies. Indeed, what is set forth is not only that the nature of states are context-dependent, but even more importantly that the human mind, that the economic subject itself is open to a multiplicity of definitions. The notion of the indeterminate mind is central here (Vico 1744, 75; chapter three), not only as it firmly sets the analysis into constructivist territory, but also because it then allows the individual-state relationship to come to the forefront. Indeed, when the human subject, as an individual per se and in the ideal-typical form, is taken as a subject in the making whose definition is open to a variety of interpretations, then such variety itself becomes political (Butler 2000, 12; Bourdieu 2005). It is the starting point into setting out the political aspects of the definition of what/who the individual as an economic subject is, according to which schemes of interpretation he/she makes sense of the lived environment. Whatever the set of naïve theories (or everyday ways of making sense of economic phenomena; Heider 1958) adopted, such a choice is political as it involves marginalising alternative ways to make sense of economic phenomena (Laclau 1990; Soeffner 2004). As such, such sets of naïve theories are political in terms of ontology, by their very existence (aspect 1 as explained in chapter four). At the same time they are political in distributional terms as they depict certain behaviour as more appropriate than others. They hence distribute moral value between different sets of economic behaviour (aspect 2). Such an approach then also allows one to study the making of

the economic subject as a consumer, in opposition to the productionist focus of VoC (Campbell 2005, 7; Hancké et al. 2007).

But if the human mind is indeterminate, then the state, in whatever form it might come as an institution and as a set of policies, inevitably influences such schemes of interpretation (chapter four). Following on from the constructivist institutionalist literature (Schmidt 2005; Hay 2006), I combine the variety of states (in form and output) with the variability of the human mind. There are thus two levels on which the constructivist approach comes in. On the one hand certain state policies, following a more or less coherent legitimisation rationale of why which kind of state interventions is necessary for which members of society inevitably engages in the normalisation of particular sets of naïve theories over others. On the other hand, the very definition of the state through certain taken-for-granted assumptions held by policy-makers impacts on the way that the rationale for state intervention is framed and legitimated. Again then, and falling back onto notions from the constructivist institutionalist literature, the state polity (Schmidt 2008a) itself is again political as it side-lines other ways of making sense of what a state is supposed to be (literature on the sociology of policy instruments; Lascoumes and Le Galès 2007; aspect 3). It is here where the link back to the depiction of the state in the comparative capitalisms literature can be made. Indeed, the framework here does allow for variability in the conceptions of what the state is, taking into account the wider socio-economic context of meaning. Additionally, such specific policies themselves are political as they favour some groups in society more than others (aspect 4). This element of the distributional elements of the political is already part of the literature as it represents the Lasswellian definition of the political.

Methodologically then, what is essential is the individual-state relationship. It is from this interaction that the questions of how a particular type of economic subjectivity is reproduced through the depiction of a certain set of naïve theories. At the same time, the exact ways in which policies are legitimated is crucial, exactly because it is here where the construction of the meanings of ‘good’ and ‘bad’ behaviour in relation to economic phenomena is located. Through the very policy-making process, policy-makers infer normative meanings into the programmes. This occurs in the coordinative discourse (Schmidt 2005) where the reasons for a certain kind of state intervention are set out, and in the material features of the policy themselves. I have thus used parliamentary debates as the source of my data as they constitute the material the taken-for-granted assumptions can be extracted from, as well as the meaning that policies are then facilitating in relation to the definition of the ideal-typical economic subject. As such, the theoretical chapters set out a framework that is able to shed light into additional aspects of the political in relation to the VoC and Comparative Capitalisms literatures, but also as far as the constructivist institutionalist body of studies goes. Indeed, the latter points towards the political features of coordinative discourse.

3 The Findings in Short

The thesis then goes on to present a series of chapters concerned with the political aspects of the making of a particular ideal-typical model of economic agent so as to operationalise the method suggested earlier. The cases selected are the British and German home ownership and mortgage markets. The rationale behind this choice first

relates to the differences in capitalist regimes that all three literatures (VoC, Comparative Capitalisms and Constructivist Institutionalism) have set out. Indeed, all of these bodies of knowledge positions the UK and Germany on the extreme ends of their classifications efforts, either in terms of Liberal vs. Coordinated Market Economy or as far as the simple vs. compound polity goes. The choice for these markets is informed by them being spaces where the individual subject acts in his/her role as a final consumer, either of housing or of financial products. As such, they are adequate for the application of the suggested method. At the same time, in both economies these markets are central to economic regime, even though in various ways, as fostering internal demand in the UK, and in terms of employment in Germany. As such, they constitute important aspects of the type of capitalism in both socio-economic orders. The reason for analysing both housing and mortgage markets lies with the centrality of the financial aspects when acquiring owned property. Additionally, the house price trajectories observed in these economies differ markedly, the UK having experienced a house price boom, whereas the German prices have been flat. In terms of the period under investigation, the start date was set to the year 1997 and the end date to 2007. This is the period that saw the massive increase in house prices in the UK. In relation to the framework this means that one particular state rationale for intervention can be found in this period, even though that is not to say that such a rationale for state intervention was always internally consistent.

In terms of the main findings of the case studies, it is impossible here to go into all the details about how exactly the political aspects of policies was legitimated and how such efforts depicted some naïve theories as more adequate than others in making

sense of the home ownership market, of the state and of the economic agent. In this sense, I focus on those findings that directly relate to the central issues and questions of the thesis. In general the hypothesis that the same rationale can be found in both the housing and the mortgage market has been confirmed in both cases. This is the reason for why I am not distinguishing between these two markets here.

As far as the ideal-typical individual goes, the British policies were depicting an active and responsible agent that was using the mortgage market to both play the housing market and accumulate wealth on the back of rising house prices. It was the responsibility of such an agent him/herself to make sure the economic opportunities that markets presented were taken. Rather differently, the German market participant was depicted as a person that avoids the uncertainty in markets and behaves according to his/her social position and the behavioural patterns that state policies assign to such a socio-economic group. Indeed, the typical home owner was supposed to be a household with a family, the owned house being legitimated in terms of offering a vehicle to ameliorate the living conditions of the family and to allow wealth transfer between generations. Whereas the British subject was seen in his/her own terms, the German individual was regarded as being part of a wider socio-economic group of married couples and children.

As regards the depictions of the concept of the market, the British study found the market was seen by policy-makers as a space that, if the adequate conditions were offered through state policy, could lead to socially accepted macro-economic outcomes on the mere basis of free and active economic agency. As such, the market

was trusted to be a mechanism in itself was able to produce beneficial results for the vast majority of the population. Market volatility was hence welcome as a mechanism that was offering opportunities to the economic agent to maximise his/her wealth, and through this very process realise the potential for the macro-economy to work in the interest of its members. In relation to this, the way that German policy-makers understood the market as such was one of caution. Indeed, housing markets were seen to be too central to the German economic regime to be left to economic processes and individual agents alone. As the political implications of markets mechanisms were noticed, the state officials saw themselves as the managers of the economy that had to actively manage the market by enforcing rules of who was eligible to enter the home ownership market and wider macro-economic issues were to be accommodated in relation to such a market.

Finally, and this comes back to the conceptions of states per se, the British policy-makers were understanding the state as an actor that was helping people into the home ownership market (market-enabler), at the same time as making sure it was delivering not undermining the wealth already accumulated by market participants (market-optimiser). Even these conceptions were not always easy to combine, the role of the state was seen as ensuring agents had the adequate level of knowledge to make market decisions, and as legislating against unfair behaviour from financial institutions. These perceptions are then in line with a direct individual-state relationship where the policies are meant to help the economic subject directly. In Germany meanwhile, the policy-makers were more careful in embracing market mechanisms as they perceive the role of the state as catering not so much for the individual per se, but for the good of the community. Among the many macro-

economic domains that state policy had to address, the home ownership and the mortgage markets were only two among many. As such, state intervention had to balance priorities and ensure outcomes through the granting of public funds. The notion of the market was thus much less debated in the German parliament.

To come back to why these accounts not only represent applications of the constructivist account of varieties of capitalism, but also highlight additional layers of the political within them, I relate these findings to the four aspects of the political as set out in chapters three and four. The mere comparative aspect of the method demonstrated the indeterminacy of the mind and the variety of naïve theories facilitated in both contexts. Whereas the same markets have been analysed, the exact way of how economic agency, the market itself and the state have been made sense of significantly differs. This is hence an indication that in different polities the same economic phenomena can be interpreted in different lights. This finding showcases how economic regimes more generally favour certain understandings over others, hence marginalising alternative ways to interpret economic phenomena (aspect 1). At the same time, it demonstrates how the state, as an institution or polity and as a set of policies with the same underlying rationale, can be made sense of, depending on the context. As such, this is a direct reply to the effort of the Comparative Capitalisms literature to bring the state back in, not so much for its sake, but because it is a social construct. At the same time, the analysis of parliamentary debates has shown how such a process of legitimization of particular readings of the economy also involves the distribution of moral value to some sorts of behaviour more than to others (aspect 2). For instance, whereas the individual agent was seen as active and profit-seeking in the UK, such a reading was warned against in the German context.

Simultaneously, the political character also relates to the way that particular taken-for-granted conceptions of policy-makers in relation to what the economic agent, the market and the state were supposed to be. As the analysis of coordinative discourse has demonstrated, policy-makers both in the UK and Germany were defining and addressing policy in particular ways and thus showed how particular understanding limit the range of policy instruments theoretically available, in other words how those conceptions engaged in violence towards alternative policy approaches (aspect 3). As an example, whereas in the UK the issue with rising house prices was seen through the lens of an inefficient market, in Germany policy-makers were not that concerned with house prices as that was not part of the priority of policy. Finally then, the variety of policy interventions also had effects in terms of the distributions of costs and benefits in line with the depiction of moral value (aspect 4). Whereas those individuals that had jumped onto the housing ladder early on in the UK saw their equity go up, those that came into the home ownership market later on had to climb higher entry barriers and saw less appreciation of their housing assets. In the German case, the housing policies were benefiting those families that wanted to buy an own home at the time of the state aid, on the back of single individuals who got much less out of the programme. Also the German building industry must be seen as a winner in this context.

Another notion that the thesis has introduced is the concept of ‘micro-macro complementarities’, as an analogy to the ‘institutional complementarities’ used in the VoC analysis (Hall and Soskice 2001, 17). What it relates to is the link between those sets of naïve theories observed and the economic mechanisms according to which a

market, or even economy, works. Indeed, it points to the interrelation between the micro- and macro-economic levels, as being interdependent. This is probably not surprising if the terms ‘micro’ and ‘macro’ are defined as heuristic tools and not as ontological categories. I introduce the concept to underline the ways that markets should not merely be analysed through a focus on institutions as VoC tends to do, but through a prism that allows the scholar to have a closer look at the ways the individual is integrated into broader economic evolutions. In both the British and German case, the developments of housing and of mortgage markets alike went hand-in-hand with a particular legitimization discourse in parliament, the one influencing the other and vice versa. As such, the notion is helpful in highlighting the definition of economic agency as being embedded into a particular reading of economic phenomena.

4 Further Intellectual Avenues

In this section I would like to position the approach set out, the argument made and the findings discovered against other topics and fields of intellectual enquiry. This is done to depict the even larger socio-economic context than has been covered here. In a series of reflections, I subsequently focus on the connections between the thesis and concerns with the welfare state, the implications for the notion of market-making (Clift 2012) and the European level, the British and German growth model, Critical International Political Economy (Cox 1981), and Everyday International Political Economy (Hobson and Seabrooke 2007).

When talking about varieties of capitalism, Esping-Andersen's contribution (1990) comes to mind, especially when the British and German cases are investigated. At the same time Crouch's notion of 'Privatised Keynesianism' (2009) for the British case also links particular models of capitalism to forms of welfare state behaviour (also Young 2009). The thesis has not engaged with such studies more fully in an attempt to focus on the core arguments presented, but I acknowledge that the links between the micro-macro complementarities displayed throughout the empirical chapters can be linked to welfare state forms, especially as far as the housing market goes (Doling and Ronald 2010). Indeed, and this is also in line with Crouch's insights, home ownership presents a potential avenue for state officials (at least in the UK) to build assets for a wide section of the population and hence get around issues of heavy pension expenditures and fiscal discipline (Doling and Ronald 2010). So far, these evolutions have not been observed in Germany where the meaning housing is more focused on the accommodation purpose. At the same time, such policy discussions connect to different forms not only of capitalism, but also of residential market settings (Schwartz and Seabrooke 2008), as well as to the notion of welfare state restructuring (Tedeager and Helbrecht 2007). As such, the more or less deliberate integration of the home ownership market into economic strategies is an avenue that further research could deal with.

In relation to the notion of market-making (Clift 2012), I see this notion as potentially fruitful to analyse not only the ideational bases of national capitalisms but also to investigate the policy-making process at an international level like the European Union. In discussions about a European mortgage market that seems to take longer than some EU officials would wish, such national differences in the perceptions of

what markets are and what they are for can potentially lead to intense political debates (COM (2007) 807 final). Even though the thesis operates under the premises of ‘methodological nationalism’ (Amelia et al. 2012) and is positioned in the comparative capitalisms literature, there is potential to move beyond this realm and demonstrate how nationally-held assumptions filter up into the international policy-arena. The case of a potential European mortgage credit market in line with the Single Market is thus a potential research path to explore.

Building on the notion of micro-macro complementarities, there is scope to extend such a concept beyond the realms that have been covered in the thesis. In terms of international comparisons, the UK is an economy that is dependent on internal demand whereas Germany’s growth is driven by its exports. This has been openly acknowledged in the British Treasury’s growth plan as the following quote demonstrates.

Our share of world exports has fallen from 4.4 per cent in 2000 to 2.8 per cent in 2009. These trends are not inevitable for an advanced economy: look at Germany whose share of world exports was 9.0 per cent in 2009 compared with 8.5 per cent in 2000. Not only do we export just a third as much as Germany, we even lie behind the Netherlands, a country a third our size. (HM Treasury 2011, 3)

Extending the notion of micro-macro complementarities could help link the micro, the national and the international level of the world economy together.

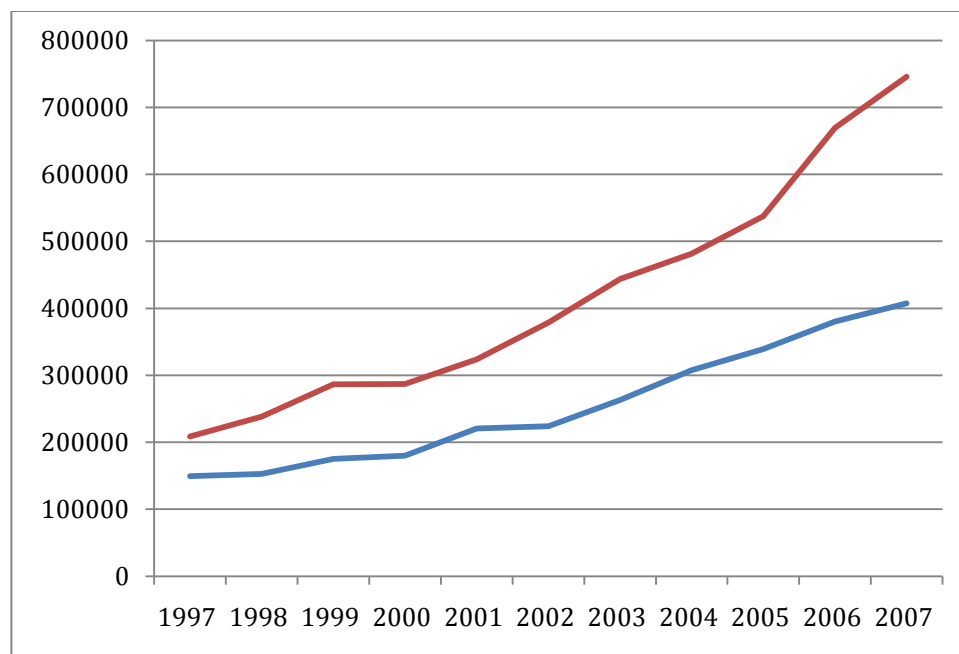
Indeed, the depiction of the active economic agent and the flexible market mechanisms in the UK matches with an economic setting that is built upon internal demand stimulated through mortgages (Benito and Power 2004). In Germany, the rationale of savings and even a disdain for consumption (Hecken 2010) plays into a socio-economic regime that is aligned with a strong export sector (Hollingsworth and Boyer 1997). In a sense, such an extension would link the national concerns with understandings of economic agency and markets with Hall and Soskice's interests in explaining institutional advantage on the global scale. This then also underlines that the approach suggested here is complementary with the VoC perspective in certain domains. In the end, the thesis does not claim that a focus on individual-state relationships can explain all features of capitalist diversity, but that it can bring out additional political elements when trying to understand national differences in economic regimes.

Annex I: Naïve Theories of the Luxembourgish Housing Market

1 Introduction

In line with the investigations into the facilitation of British and German naïve theories in their respective housing and mortgage markets, the Luxembourgish case is analysed in the subsequent two chapters. Just as was the case with the latter investigations, the central procedure follows from the theoretical reflections initiated in the literature review and developed in chapters three and four. The reasons why the Luxembourgish country is included are various and deserve explicit attention here. First, just as the other economies under investigation, Luxembourg presents a society that is firmly integrated into capitalist features. However, contrary to the British and German variants, the literature has entirely omitted studies of the Luxembourgish economy in relation to the models of capitalism thematic. Internally, the notion of ‘Tripartite’ (Hirsch 2007) refers to the way in which state officials coordinate policies with labour representatives and the industry. But again, such insights do not engage in a more detailed analysis of the individual-state relationship under a constructivist view point as laid out in the thesis. As such, the insights presented here are findings on their own right, but also need to be interpreted as an attempt to highlight elements of how the latter economy sits with the two others studied beforehand. This is not so much to locate Luxembourg on the liberal market economy – coordinate market economy axis of the VoC literature (Jackson and Deeg 2006a), but to describe yet other legitimization regime and the kinds of coordinative discourse used in yet another setting. As the thesis is interested more specifically in the domains of the investigated societies that relate to housing and the individual-state relationship within them, that is also the focal point here.

Second, as far as prices for owned housing properties go, the Luxembourgish figures display characteristics from both previously analysed cases. With the level of medium-term volatility being comparable to the German market, but the dynamics of appreciation closer aligned with the British economy (HC E-2007-19-02, p.40), the raw data throws up questions of how to possibly reconcile two opposing sets of naïve theories. At the same time, as chapter four has made clear, it also raises the question of what kind of individual-state relationship is to be found in such a case. It becomes apparent that Luxembourg is not neatly matching with any of the cases of capitalist housing markets analysed so far. That is not only interesting in empirical terms but would also be in line with more recent claims in the VoC literature that reject classifications altogether and take greater care to analyse economies or sectors of entire societies in their own terms. This is necessary as economies are always socially embedded (Streeck in Crouch and Streeck 1997).



Nominal prices (in euro) for unifamily houses built after September 10th 1944 (above) and for unifamily houses built before September 11th 1944 (below) in Luxembourg. The trend for owned apartments is very similar. I acknowledge the help of Claude Lamboray from Statec who provided me with the data upon this graph was produced.

Third, this case demonstrates how the framework and methodology promoted in the theoretical chapters can be applied to socio-economic contexts that have not yet figured as prominently on the academic agenda. In other words, it showcases how an analysis of how the individual and the state relate to each other is complementary of how to make sense of different forms of capitalism. Once such an approach is adopted where the state is not seen as a universally identical concept but as a deeply context-dependent entity that can provide facilitation of interpretative patterns, the research area of varieties of capitalisms opens towards novel fronts. Such an entry point complements the current literature not only on capitalist diversity but also on state activity more broadly (Best and Paterson 2010).

Fourth, these chapters also show the inevitably political character of all forms of collective life as described in chapter three and four. Indeed, even though house prices have been on an upwards trajectory for a long time in Luxembourg (HC HC I-2002-0-1005, p. 20), that is not to say that the underlying processes were free from contradictory tendencies. Through the exposition of the various ways of how the indeterminate character of the human mind was temporarily fixed, the thesis shows that opting for one way over others is already an engagement with the political domain as such a choice necessarily exercises an act of violence against alternative ways to making sense of economic phenomena.

Finally, the inclusion of the Luxembourgish case in the annexes is also accountable to the generous funding by the ‘Fond National de la Recherche Luxembourg’ (FNR) that

requested insights directly related to the Luxembourgish context. I can only repeat that I deeply acknowledge their financial support.

In line with previous empirical investigations then, the present chapter looks into the exact articulations and justifications of Luxembourgish housing policies undertaken or discussed between the years 1997 and 2007. The material fallen back onto are policy statements made in the unique chamber of parliament that the Luxembourgish political system knows ('Chambre des Deputés'). As the taken-for-granted conceptions of policy-makers are central in exposing the justificatory narratives of specific housing policies, coordinative discourse is analysed here. Indeed, the rationale for this data selection is that the exposition of certain naïve theories regarding the positions of the individual in relation to market processes is best expressed in parliamentary utterances. Again, as the definitions of what constitutes a housing market, of what state activity is supposed to achieved, and of what economic agency means are fundamental to this study, statements form the basis of the investigative material. As the official languages of Luxembourg are Luxembourgish, French and German, and all of them have been used in the documents of my analysis. All translations are my own.

This chapter is divided in three parts. Firstly, I quickly highlight the nature of the housing policies in place in 1997 as well as the main axes according to which the subsequent discussions have been framed in. This section is not only meant to figure as an introduction but also offers some commentary about the politics of who qualified for which aids and for what reasons. The second part focuses on the

interplay between state facilitations and the market. The questions raised here concern the mechanisms through which the social goals outlined were supposed to translate into materiality. A certain definition of how the housing market was supposed to operate comes to the forefront. Thirdly, attention turns towards the making of the individual as an economic agent within the structures described beforehand, either in terms of the market or others. It is here that the individual-state relationship comes most clearly into focus.

2 Which individual-state relationship?

Just as in the cases analysed, Luxembourgish housing policy was also linked to previously enacted legislations. In this respect, the main document upon which the state was falling back was a law from 1979 entitled ‘housing aid’ (Mémorial A 16, p. 293). Most of the subsequent policies were in fact only modifications or additions to this legal document so that a high degree of path-dependency was found in the arguments presented in favour of these changes (HC J-2003-0-0531, p. 2). For this reason it is worth to have a closer look at this particular law (HC E-2007-19-02, p. 48). At the same time, it shows how naïve theories can be embedded into longer historical processes, or state traditions (Dyson 1980).

The first paragraph listed the objectives as promoting the access to housing property for individuals on moderate income, the adequate supply of building space, the construction of sets of houses at moderated price (social housing), the rehabilitation of older houses, and the creation of public accommodation (Mémorial A 16, p.294). The

law went on to mention the different schemes of aid that state policies could make use of to achieve these aims. As this text was only changed in some technical aspects until 2007, this is also the basis upon which the analysis here starts from. This strong embedding into previous legislations has more strongly been noticed with the German case in the respective chapters, just as the macro-concerns with public services.

In terms of more detailed content, the policy-makers were first “authorised to guarantee” (p. 294) the repayment of interest from loans that have been granted to private individual in order to build, transform or improve the accommodation that was used as the principal and permanent domicile of the borrower. Second, state policies were “authorised to encourage the access of housing property through granting construction and acquisition allowances according to the income and the family situation of the beneficiaries” (p.295; HC A-2004-105-0001, p.1644). The third tool in relation to home ownership was to give out allowances to help with the interest payments that are generated by mortgages in line with construction or acquisition objectives (Mémorial A 16, p.296). Those were the main policy means that had survived over the years, and they were being used extensively (HC C-2005-0-007-0006, p. 55). At the same time, the housing issue was one that was heavily debated in the period of observation as becomes apparent later on.

What this section is concerned with for now is to draw a first picture of the main characteristics of Luxembourgish state interventions into the housing market. The overall approach was one that started from economic observations that conditioned the granting of state allowances to the individual. As such, individuals were only

entitled to public support when they were actively living in their home (Mémorial A 16, p. 294 and 295). Also, these aids were only able to be granted to non-owners, state policies did not support second properties. The owned house was not seen as a speculative good then, but one that was to be used in terms of accommodation. This also became obvious when financial speculation was attacked as one of the main causes behind overheating house price trajectories as owners of land were delaying to put it onto the market as supply was already limited (HC C-1999-0-045-0003, p. 1627; HC Q-2003-0-E-2658-01, p. 4). In this sense, and although this might have been a strategy for private consumers, the Luxembourgish state officials did not treat housing property as an asset that was supposed to gain value over time.

However, I argue that policy-makers did consider ownership as the default tenure. Not only was there a consensus in the house of parliament that the seventy percent home ownership ratio was positive (HC C-2002-0-041-001, p.511), but the continuous measures also facilitated a view that social housing could only be an intermediary step into ownership (HC C-1997-0-020-0002, p. 1108).

But I also want to mention that the social housing sector cannot solve the lack of housing constructions, and that Luxembourgers look forward to acquire a house that is theirs. To fulfil the desire of an owned home is an absolute priority among state duties. (...) but regardless of all the mentioned aids, there is still a group of people that (...) afford an owned house. Hence they cannot benefit from the support mechanisms, and for them it is important that we help them to fulfil their desire to life in a decent accommodation. (Minister of Housing, F. Boden, CSV: HC C-1997-0-020-0002, p. 1123)

This quote also highlights that outsiders to the ownership market, or those individuals that did not try to access it, lost out on income streams. There were thus financial reasons for doing so, even if the latter were related to state aids, not necessarily to the acquired object per se. However, even though this was not an explicit aim of the Luxembourgish state intervention, the generous nature of the funding schemes and the coordinative discourse do present a naïve theory that favoured ownership over other tenures (HC C-1999-0-045-0003, p. 1628). Indeed, when faced with a critique of very high rent prices, the Minister only mentioned that the state was “enacting an active housing policy in relation to the access of private housing property” (HC Q-1999-0-E-0256-02, p. 3) without going into the tensions that such a policy might entail.

As hinted at already there existed an affordability issue in the ownership market as prices were hitting new highs (HC Q-2004-0-E-0325-02, p.4). But just as with the reflections offered when treating the German case, the definition of such a concern always comes with assumptions about what home ownership is supposed to be in the first place. Indeed, what was regretted was that on the one hand an owned house was supposed to be the default tenure for all members of society (HC C-2000-0-064-0001, p. 2430), but that on the other hand

the owner-occupied dwelling here in Luxembourg is on a way to become a luxury item. The dream of the own four walls risks to stay a dream for ever more people (M. Di Bartolomeo, LSAP: HC C-2000-0-064-0001, p. 2418).

An owned home was then seen by policy-makers as a quasi-right that state interventions were supposed to deliver for the individual (HC C-1997-0-020-0002, p.1005). Or to use the words quoted, the individual had a right to claim that dreams

become reality, on the back of housing policies. The Luxembourgish policy-makers then framed ownership in a way that was always going to be difficult to stand up to unless extensive resources were released.

The policies in operation in 1997 focussed on helping the individual with coping with the financial problems that the entry into the ownership market presented. At the same time however, the way in which the affordability situation was being explained by policy-makers and hence addressed was through a macro-economic lens. Indeed, all of the policy-making actors shared the interpretation that the price evolutions were due to a mismatch between offer and demand on the market (HC J-2001-0-1645, p. 1; HC J-2001-0-1661, p.1). Again then, the choice of policy instruments was entailed by certain taken-for-granted assumptions of policy-makers. But such an approach seems to be an inconsistent plan of actions, as the policies seemed to be targeted at the individual, as shown above, but they were legitimated in relation to macro-economic evaluations. The individual-state relationship hence appeared to be less clear-cut than in the previous cases analysed. The following two examples with relation to the place of the individual in the policy design bring more light into this apparently inconsistent individual-state relationship. They are concerned with the valuation of the family and the connections drawn with other socio-economic themes.

Even though the 1979 law was signed by the Minister of „family, social housing and social solidarity“, the tone was not overly explicit in the family element. Surely, the housing aids were linked to the „family situation of the beneficiaries“ (Mémorial A 16, p.295; HC Q-2004-0-E-0152-02, p. 2), but the policy-makers had not introduced a

social categorisation between singles or unmarried couples and married couples in the way the German state policies did. Also the interest payment support was set up in a way that allowed single individuals to receive more than half of the aid that families with one child are entitled to (Mémorial A 16, p. 312; HC A-2000-035-0002, p. 855). That meant that the transition between the social statuses was smooth, especially as income played a significant role in the distribution of state allowances. With higher income limits for households than for singles, the underlying logic was one where the individual is valued per se, not merely in relation to his/her quality as a (potential) parent (Mémorial A 16, p. 312). This was underlined by the annual report of activity of the housing department that listed the amount of aid that had been granted. Instead of talking about ‘families’, it mentions ‘households’ with a certain amount of children (HC E-1998-25-02, p. 62). At the same time, it also itemised various social categories from singles to widow over cohabitation. Again, the categorisation element did exist, but in a way that imposed no social barriers to state support in terms of naïve theories and material funding opportunities. This is important as such a language of coordinative discourse highlight the conceptions held by policy-makers as well as the axio-rationality that legislations were facilitating.

These observations would point towards a direct individual-state relationship for the Luxembourgish case, but as mentioned, they are taken from the 1979 legislation. When more recent utterances in relation to the housing market are taken into account, the theme of families was also rarely mentioned. Indeed, it tended to be overridden by much more general reflections on the state of the Luxembourgish society and economy. The main subject of discussion here were demographic upward developments in the national population (HC C-2000-0-064-0001, p.2420). The

central mechanism through which the offer/supply inadequacy had come about was the constant influx of new citizens into the country, mostly through immigration (HC I-2002-0-1005, p.10). Indeed, the affordability issue was in most cases introduced as one that followed these demographic tendencies (HC E-2007-19-02). This then demonstrated a much stronger emphasis on a macro-economic and managerial approach to housing.

The inconsistent tendency can be seen in other examples. One particular issue in parliamentary debates was the fact that there were a considerable number of Luxembourgish citizens that moved out of the country to access home ownership in the neighbouring areas (HC Q-1999-0-E-0256-02, p. 2440; HC C-2000-0-064-0001, p. 2418). This was regarded as a form of state failure as it showed that market prices were driving away the very individuals for which it was supposed to work for (Besley 2007, 49). Also, particular family logics were now considered to be detrimental to the housing market in terms of the availability of building space. As parents wanted to keep the land for their children once they are growing into home ownership, they delayed the supply of land into the general market (HC C-1999-0-045-0003, p. 1628). Here the individual-state relationship was twice regarded as being direct, state policies being legitimated as catering for the individual as such, not for social or wider societal reasons.

However, the linking with the building sector was an instance where such a focus on the on the individual was given up in favour of a more managerial perspective (HC C-

1997-0-020-0002, p. 1123; HC C-1999-0-045-0003, p. 1628; HC C-2002-0-041-001, p.501).

Housing construction is only one aspect of the development of the Luxembourgish country, and as important as it is to discuss about prices and aids and similar issues, we also need to ask ourselves other questions, in relation to housing or potentially even before it: questions, where we build. Questions, how we build. It imports to integrate questions about qualitative as well as quantitative aspects of the land-use policy into the discussion. (A. Bodry, LSAP, HC C-2000-0-064-0001, p. 2432).

In this sense, themes like the pension system were also brought up to understand how housing could act as a pension-like tool for some members of society (HC C-2000-0-064-0001, p. 2438; see also Ronald and Doling 2010). The focus then seemed to have been wider than the individual only, even though considerable attention was devoted to the exact ways in which owner-occupation was to be delivered through state channels. Even if the individual-state relationship was mixed, interventions into the housing market were legitimated with reference to the individual and the quasi-right to housing property (HC Q-1999-0-E-0256-02, p.2427).

However, in 2002 when new housing measures were taken up that added to the objectives outlined in 1979 (HC C-2002-0-041-001, p.501), the balance seems to have struck back to an indirect individual-state relationship. Apart from the inscription of the ‘right to housing’, the new policies introduced a stronger focus on housing for students, a demand that had been brought forward by a special interest group, and set out to ensuring a degree of ‘social plurality’ in order to prevent the local accumulation

of social classes (HC J-2001-0-1584, p. 2). However, the central novelties were the introduction of a fund for social housing and a central unit that gathered housing data (p. 8). Again, this displayed a perspective from policy-makers that was mixed in terms of its targeting, addressing macro-topics as well as trying to deliver goods for the individual more directly. Even though the moral end of home ownership was to make sure the wide majority of households were able to enter this tenure, the legitimisation narratives were not clear of the reasons for such an undertaking were lying with the individual him/herself or with larger socio-economic considerations.

In short then, the Luxembourgish state involvement with the housing market displayed mixed features. On the one hand the policies were focused on individual outcomes where the notion of affordability underlined such a principle. On the other hand, more macro-economic themes also came into the discussion, especially when framing the very affordability problem in terms of market disequilibrium (HC Q-1999-0-E-0256-02, p. 2432). These observations here show that a positioning exercise in relation to the UK and Germany are futile routes as it would not allow to adequately representing the complexity of the Luxembourgish case. In relation to the ideal-typical nature of VoC categorisations and those established by the constructivist institutionalist literature, the thesis argues for concrete analyses of economic phenomena, concepts being used as heuristic tools rather than as meta-theoretical artefacts. The chapter now moves on to analyse the notion of the market in such a context, as apparently it were market processes that were driving up prices.

3 The Market-State Articulation

Once it has been outlined how housing policies were framed in general, it imports to look more precisely into the ways in which market mechanisms were made sense of in relation to delivering housing outcomes. As the thesis focuses not only on the individual-state relationship but also on the understanding of the market by policy-makers, or other economic processes that come as intermediaries into this relationship, the exact way in which housing aid was delivered comes to the forefront. Even though in the 1979 legislation and the subsequent changes made to that text the notion was not used, the analogy of supply and demand in the analysis of the affordability issue was a clear indication that some elements of the provision of housing were seen in terms of the market.

Indeed, the discourse on housing was one that paid much more attention to outcomes than to the channels such state support was to be delivered through. As such, the housing market was considered in terms of a market, but one that had to be judged in how well it was able to deliver the right to home ownership. In this regard, the discussions to include the ‘right to housing’ into the Luxembourgish constitution were insightful (HC I-2002-0-M-2649-01, p.2; HC I-2006-O-M-0242-01). They showcased concerns with the ends of public policy much more than with the means to be utilised. In a situation where market mechanisms were progressively leading to a situation where some members of society were unable to access their preferred tenure, policy-makers reaffirmed that the state as an institution had a duty to guarantee adequate accommodation for all citizens. What was interesting in this regard was that not only was the seventy percentage mark of owner-occupation hailed, such a high level was

also defended against the adverse economic issues it contributed to, meaning house price inflation (HC C-2002-0-041-001, p.511-2). Such a reaction showed that home ownership was seen as the default housing choice (HC I-2002-0-M2839-01, p.1).

It was also in this way that the affordability issue was phrased. As the market, seen as a quasi impersonal set of processes, was displaying high price levels, it undermined the social element of housing (HC C-1997-0-020-0002, p. 1105) as access was becoming more limited to poorer individuals. Even though the housing market was seen as delivering outcomes that were in line with the conception of the right to housing, and not as opportunities for the accumulation of financial wealth, such a perception was becoming ever harder to translate into practice. However, even though there were real concerns with the effect of house prices on first-time buyers, especially framed as relation to younger consumers (HC J-2001-0-1645, p. 1), there was also a majority of households that were benefiting from them. As the individual-state relationship was mixed and that only a part of the population was confronted with the affordability issue, the problem was not openly debated in parliament until up to a point where prices had been rising to excessive levels.

Thus markets were seen as a mechanism to distribute housing that could potentially fail (HC C-1997-0-020-0002, p. 1119), not as a rightful process in itself that produced socially acceptable outputs as has been observed for the British case. As such it followed more closely the German conception of markets as fulfilling social duties in order to enable a society to reproduce itself. However, the affordability issue did relate to purely financial considerations of individuals, not the family as was the case

in Germany (Mémorial A 92, p.1546; HC E-2004-12-02, p. 71). Indeed, the concepts of households and individuals were used, independently from the social status of the beneficiary. The market was then supposed to cater for the housing requirements of all the population with state interventions coming in when market prices were deemed to be unsuccessful. These levels were slightly different for singles and families with children but they were still determined on the same market, which was different from the German case.

Against the British analysis, the Luxembourgish coordinative discourse was quiet as far as regulation went (HC I-2002-0-1005, p.62). This was indicative that the market was not considered to be a sphere of its own, but was coupled with the delivery of the objectives of the state intervention. Because there was a very tight interconnectedness between the market and state policy, the concept of regulation made little sense as it assumes the political sphere making sure the economic domain performs its tasks correctly. As such, the case of Luxembourgish housing markets demonstrated how different taken-for-granted conceptions of what markets were supposed to be influenced upon patterns of economic governance. The exact definition of the classic distinction between state and markets then became much more complex than the notions sometimes seem to infer.

Once it was asserted that the market had failed due to a mismatch between the supply and demand of housing, state interventions could take place on the back of arguments of a structural disequilibrium. Contrary to the British case that was also featuring a seventy percent ownership ratio and was unable or unwilling to acknowledge a u-turn,

the Luxembourgish state did consider measures to inverse the trend (HC Q-2007-0-E-2053-01, p. 1), even though they came in at a late stage. However, it acted in two ways, one consistent with a direct legitimization regime and one with the indirect version where macro-economic outcomes dominated.

The chamber of the members of parliament (...) invites the government

- to increase the offer of building space by putting – together with the municipalities and developers – onto the market the properties it possesses (...)
- to promote the demand by pursuing its generous aid policy (...) (N. Hauptert, CSV: HC J-2000-0-M-2140-01, p. 1)

As the problematisation of the affordability issue was framed in terms of a macro-economic inadequacy and hence mixed up features related to the individual with top-down elements, the solutions were framed in a similar fashion. The argument here is first that the Luxembourgish rationale for state intervention was addressing the identified problems in the housing market in terms of active market interventions. As such, the market was regarded as a tool in the hands of the polity to ensure the right to housing understood in terms of owner-occupation, and one that had to be managed to make sure the outcomes were in line with the socially defined ends. Second, the actions taken following such an understanding were partly in tension because they boosted the supply-side as well as the demand element of the market. In their form these measures were in line with macro-economic management principles, but in their content they defied the latter at the same time. The simultaneous backing of both sides of the equation meant that no significant effect could realistically be expected from

such actions. In this sense, the accusations that state policies had partly manufactured the spiral of house price inflation ('Chambre de Commerce': HC J-2001-0-1661, p.2) were not groundless.

More generally, it was argued that the efficiency of state interventions to curb price trajectories were undermined by the price hikes themselves (HC C-2000-0-064-0001, p. 2423). As such policies into the market were subverting their very capacity to act upon prices in a way that was bringing them in line with levels that would temper the affordability issue. It seemed then that even though there were genuine attempts to help young people into the market, the effectiveness of such measures were ambiguous (HC C-2005-0-007-0006, p. 55). Even though market mechanisms were only seen as intermediaries to distribute state resources but not as acting upon house price levels, they exactly did the latter. The mixed approach to tackling the problem underlined such market conceptualisations. Indeed, the way in which the policy-making process was operating was favouring mixed outcomes.

Indeed, in the discussions about the introduction of additional market interventions in 2002, it became clear that the multiplicity of actors involved entailed a whole range of possibly inconsistent policy requests.

In the context of the examination of the present draft law, the State Council wonders if the complementary measures would not contribute in reinforcing the arsenal of envisaged measures (State Council, HC J-2001-0-1645, p. 2).

In other words, even though the 1979 law was said to “give a whole array of state aids”, they were unable to act upon the market in the sense of reducing the supply-

demand mismatch and the “explosion of costs” (HC J-2001-0-1645, p. 2). Drawing from chapter four, I argue that the simultaneous boosting of both sides of the economy was a consequence of the specific setup of the Luxembourgish polity. More specifically, the aim of consensus-building among policy actors lead to particular policy outcomes (HC C-1997-0-020-0002, p. 1128), highlighting the political character of polities. It was difficult to enforce a targeting towards lower-income members of society as the Council suggested (HC J-2001-0-1645, p. 2) because the nature of such a demand was too targeted. It is here again that Luxembourg presented a special case as the relatively large number of actors in the policy-making process was leading to a situation where a large part of the population did benefit from state aids.

Before such claims can be substantiated, this paragraph shortly outlines the relevant features of the policy process when it came to housing. Once a draft law was put down, a series of political bodies were giving their views on the proposed changes. The State Council figured as the main authority here, a body mostly made up by lawyers that mostly controlled the legality of the propositions. Additionally, professional bodies were putting in their opinion like the ‘Chambre de Commerce’, defending the interests of Luxembourgish companies, the ‘Chambre de Travail’, the chamber of work, the ‘Chambre des Metiers’, favourable to small and medium-sized companies, as well as the ‘Chambre des Fonctionnaires et Employés Privés’, on the side of the employers in the public sector (HC J-2001-0-1763, p. 8). All these instances were formulating their own positions that were factored into the policy text. In a consociationalist regime in terms of actors such as Luxembourg (HC Q-1999-0-E-0256-02, p. 2438; see also Lijphart 1985; Mair 2001), the bargaining process was

smooth in the sense that even though parties had differing views they expressed them in relatively non-confrontational terms (HC C-2002-0-041-001). In terms of outcomes this meant that the demand and well as the supply side of the housing market were fed through state interventions to accommodate the political demands.

In terms of understandings of market mechanisms and the mixed case of the individual-state relationship that Luxembourg presented, the chapter claims that the arguments of the various policy actors were not phrased in market terms to begin with. Apart from the statements about the inadequacy between the offer and demand in the owner-occupation market, the justifications by the policy-actors were starting with a statement about the individual, and then moved on to more general themes (HC C-2002-0-041-001, p. 507). In the definition of the problem, the individual quasi-right in terms of owner-occupation were held up against the market. This meant that individual patterns of behaviour were not considered to be the sole determinant influencing market outcomes. Indeed, policy-makers saw the institution of the state as a potent actor (p.504). Also, economic agency as such was never held responsible for house price inflation, something that was the case in the UK. Whereas the British policy interventions targeted the exact ways in which market participants were acting on the market, the Luxembourgish interventions were less concerned with market mechanisms per se as with the social resultants of them. This then was a complementary explanation of why state policies acted upon both the demand and the supply side of the housing market. The political requests lead to an inconsistent market approach. As such, a reduced focus on the economics of markets and a more pronounced attention to the political domain of delivering housing meant that

extensive resources were spent in multiple locations (HC J-2001-0-1584, p. 2; Becker and Hesse 2010, 413).

This policy approach was so widespread in housing that the Prime Minister not only had taken it on personally to act against the price trajectories (HC J-2001-0-1763, p.3), but also he was admitting failure on the task at hand.

Since 1991 I have done everything in my role as Prime Minister and Chancellor of the Exchequer to make housing in Luxembourg accessible for all people in this country. I have failed in this attempt. (...) And I consider this as a massive personal failure that I failed in the housing question. (Prime Minister, J.-C. Juncker in H. Kox, HC C-2005-0-007-0006, p.54, 2005)

This quote demonstrates a series of claims made above. First, there was a genuine focus on the individual in the way that affordability was defined. Second, market evolutions were not openly discussed apart from the fact that prices were going up. Third, the market was not considered as a space for financial wealth accumulation by the state officials but as a mechanism to allocate housing among the population. Fourth, the state interventions were phrased around naïve theories of exactly those social functions of owner-occupation, not so much in terms of market processes. Fifth, the measures taken did not produce the envisaged effects but were possibly counterproductive in their impact.

Additionally, the failure was not attributed to the market as such or economic agency, but was located with state policies being unable to act upon the ways ownership was progressively becoming harder to access (HC J-2003-0-0531, p. 1). Apart from

underlining once again what significance home ownership had in the Luxembourgish context, the quote also hinted at the structural issues in the policy-process itself. The acknowledgement of the Prime Minister of state failure after fourteen years was not only a sign that policy interventions had facilitated naïve theories that had been promising more than could be delivered in terms of owner-occupation, but also that they had covered up a limited understanding of markets. Indeed, references to either micro- or macro-economic theories as they appeared more or less explicitly in the two cases investigated beforehand were rare in the Luxembourgish context (HC Q-2003-0-E-2658-01). The ad hoc approach of delivering housing to all meant that excessive resources had been granted since 1979 and that the underlying explanatory mechanisms had been replicated over the years.

What was crucial in this regard was an individual-state relationship that did not impose either a focus on direct or indirect features and policy interventions that were trying to achieve more than they possibly could do in a market setting. By playing simultaneously into the hands of the final consumer and the professional industry, the naïve theories depicted a view that the evidently political contradictions between supply-side and demand-side policies were inexistent (Drazen 2001). As such, the political aspects of the subjectivities facilitated were covered, until a point where the price levels did showcase the socio-economic consequences for younger first-time buyers. The naïve theories that had been functional in the build-up of the price trajectories were unable to be sustained for a younger generation. Even though they applied a different perspective towards the workings of the market, Luxembourgish housing policies presented the same political tensions that foreshadowed the demise of British house prices.

4 Economic Agency and the Rationale for State Intervention

Following on from the understanding of the workings of the market, this section analyses in more depth the ways in which private economic agents were integrated first into such market understandings and second what implications this had for the individual-state relationship. What appears was a triangular setup where certain everyday subjectivities of economic agency were linked on the one hand to the economic sphere and to political authority on the other. That is also the reason why this part follows the one on how markets were viewed in the policy-making process.

As the chapter has claimed that market outcomes were not theorised as direct consequences of strictly individual pattern of economic behaviour, private agents were not considered to be the sole constitutive elements of the way the housing market worked. Indeed, it was openly stated that the state was one of the foundational actors when it came to housing. If the role of state intervention was going beyond that of an arbitrator of market outputs, and that individual behaviour could not be held accountable for price trajectories, then the state could be seen as a market-maker (Clift 2012). However, as the very notion of markets was not central to the way in which the Luxembourgish policy-makers were looking at housing, the latter term needs to be taken with care. In effect, it did apply to the Luxembourgish interventions in practical terms, but it does not relate to the way in which the latter were set out in coordinative discourse. Whereas the notion of market-enabler does not apply here, the concept of market-optimiser makes sense as state policies were actively trying to bring housing prices back in line with levels that ensured their affordability.

A similar argument applies to the notion of economic agency. What is crucial here is that even though the distribution of home ownership was characterised through market mechanisms and individual behaviour, the individual agent was not conceptualised in these terms. Matching the naïve theories of housing not being a domain of wealth accumulation but one that was supposed to allocate the housing good, economic agents were not meant to act according to an investing logic, but in terms of making sure they acquire adequate accommodation (Mémorial A 16, p. 294). A breakdown of the level of mortgage interest support for different categories of households was indicative that state policies were helping the population into home ownership in a way that took into account the conditions of their financial commitments (HC A-2000-035-0002). Paralleling the German approach, what was central were the outcomes in terms of effective owner-occupation, not the mechanisms that lead to it. State policies were helping the individual with entering home ownership, they were not helping them with merely creating opportunities to do so. This distinction played on the directness of the state aids granted.

Together with the consociationalist logic of policy-making, this points to an indirect legitimisation regime (HC J-2002-0-0970). Even though the denomination of a mixed regime was more adequate in general, the degree of activism that was supposed to come from economic agents in relation to housing was minimal. In other words, economic agents were seen as beneficiaries of state aid, but not as active home ownership market participants. Neither in the problematisation nor in the solutions suggested to curb prices was economic agency referred to as the central issue or target (HC I-2002-0-1005). Individual behaviour was not assessed as being the main determinant of house prices and policy-makers had taken on the task of guaranteeing

housing outcomes that were in line with its social values. Thus it was the latter that had to take the responsibility of acting directly against a situation that ran counter to its declared ends (HC C-1999-0-045-0003, p. 1627). Even though the end to making people access housing property was similar with the British objectives, the legitimisation process was different. Whereas the British consumer was said to be ill-informed, which led to market reforms, the Luxembourgish economic agent was not seen as constitutive of any of the price developments. Hence, policy reactions were not framed in these terms, even though the individual per se was the target of many state allowances. These indications point towards a type of economic agency that was passive in the sense that it was not supposed to play a key role in national wealth.

In relation to the two cases investigated earlier in the thesis, the Luxembourgish interventions displayed characteristics of both in a way that is novel. On the one hand, the claim to provide the large majority of the population with an owned house has also been noticed in the British context. On the other hand the focus on outcomes was more in line with the German perspectives even though the legitimisation regime was more aligned with the British focus on the individual. But crucially for this section, the way in which agency was conceptualised was hybrid. On the one hand, the naïve theories facilitated were applicable to all households. Not only was ownership depicted as the tenure that all members of society should strive for, but such naïve theories were also backed up by extensive policy programmes. On the other hand, it was not the individual him/herself that was supposed to arrive at that end but it was state policy that was responsible for the achievement of this goal. Effectively then, the Luxembourgish coordinative discourse and policies were not only advancing an understanding of home ownership as a quasi-right (HC Q-1999-0-E-0256-02, p.2448),

but they was also promising outcomes that were always going to be difficult to translate into reality. As basic market principles were not applicable to housing, those economic, and highly political, contradictions were not taken into account. The latter were specific to the Luxembourgish context where in the end a passive model of agency and a direct type of state support where effectively backing an upwards price trajectory.

The concepts of means and ends introduced in chapter three can be used to describe the situation in different terms. The ends were identified in social terms that focussed on the delivery aspects (HC C-2000-0-064-0001). The means through which such an objective was to be achieved were direct uses of state resources (Mémorial A 92). This effectively meant a redistributive mechanism towards those individuals that were not yet into the home ownership market, or better, the home ownership sector. As such, the notion of the market was irrelevant to the Luxembourgish housing context as both means and ends had been outlined by political entities that side-lined economic theories, depicting economic agents as sole recipients of benefits once they adhered to the conception of home ownership as not being a tool to wealth accumulation. But contrary to the German interpretation of the housing market as a foundation for the functioning of wider society, the Luxembourgish rationale for state intervention did not make those links towards other macro-economic themes explicit. In the end, the housing market was mostly serving the individual, not the society in its entirety (HC J-2001-0-1763, p. 4).

Interestingly in relation to the other two case studies, the issue of energy certification was also discussed in Luxembourg (HC J-2006-0-0188). This instance was exemplary of the way in which the individual-state relationship was played out, in relation to the policy-making process and the naïve theories facilitated. Indeed, the draft legislation handed in in January 2007 addressed the topic of “energetic performance of housing building”. It first outlined the justifications for such a law by giving a quick overview of the way in which the European Union was going to be progressively exposed to energy dependency. As such it set a technical tone, quoting figures of projections (HC J-2006-0-0188, p. 2). Before going into the position of Luxembourg in relation to these concerns, it made clear that the reason for such intervention was lying with a translation of a European law into the national legislature (p. 3). What was to be done in the latter then was a clarification of the ‘judicial situation’ by introducing rather technical details about thermal insulation, gas furnaces and climatisation systems that could lead to energy savings (p. 4).

In general, Luxemburgish policy-makers were not seeing any involvement of individual economic agency in the matter. Instead, it was a technical-legal affair that had no real connection with the housing market (p. 15). When it came to introducing the ‘energetic performance certificate’, the text was again framed in economic terms that were outlining the conditions under which buildings had to be granted such documentation with additional information. So whereas the German authorities had been careful to explain the wider societal benefits of such energy passes, and their British counterparts had focussed in the way they would be enhancing market mechanisms, none of those features was noticeable in the Luxembourgish case. As housing was not considered in terms of a market, and that agents did not play the

central role in the distribution of housing, energy certification became very much a legal procedure (Mémorial A 92, p. 1546). Even though their introduction was seen as providing additional information to potential buyers (HC J-2006-0-0188, p. 11), the state policies did not depict individuals as profit-maximising actors whose behavioural patterns would be influenced by incremental information. They were merely treated as subjects that would hopefully build more energy-efficient homes through the raising of energy awareness (HC J-2007-0-0154, p. 2).

In the draft project, it was curious that among the usual French text were introduced German sentences about the formula about how to calculate the energetic performance of a building. Even though both are official languages in Luxembourg, the State Council was also puzzled and recommended linguistic changes (HC J-2006-0-0521, p. 4). Even though this is a statement hard to proof without insider information, the German terminology could well indicate that the technicalities were copied from a report commissioned to a German company. This would make sense as a German institute had been asked in 1991 to submit an analysis of the Luxembourgish housing market (HC Q-2006-0-E-1729-02, p. 1). Speculations apart, these findings illustrate that the Luxembourgish approach to the theme was closer aligned with the German one. The focus on technicalities in general and the framing of the policy in terms of the materiality of buildings and not of economic agents or market interference was shared by the two perspectives.

It was then no wonder that the comments from the advisory chambers did not go beyond some legalistic suggestions of how to make the policy text free of ambiguous

phrasing (HC J-2006-0-0231). All of the instances were accepting the European claims about energy efficiency, and even though they were at times connected to the national economy, the general logic was one of the legal terms of the “transposition of the directive” (HC J-2006-0-0270, p. 2). In other words, the assessments of Luxembourgish policy-makers were based upon rather fluid assumptions that combating global warming was a good thing and that was why an adequate law was needed (HC J-2006-0-0276, p.2). The legitimization aspect then was largely marginalised as no further political reasons had to be given. In relation to the individual-state relationship this process meant that the law changes were not even explained in parliamentary debates but that were taken for granted. Policy-makers were not debating the introduction of such an “energy pass” (HC Q-2004-0-E-0152-02), the denominations formulated by the European Union were only taken over.

For this case then, and also more generally, even though housing was apparently such a discussed topic in Luxembourgish politics, the mixed state-individual relationship, even if slightly leaning to the direct side, meant that it was neither fully politicised as an issue of affordability and individual fairness, nor as an issue of national significance in relation to the way in which the economy was to develop in the future. The focus on outcomes and the legal aspects of housing as well as the passive interpretation of economic agency entailed that the deeply political nature of these policies was not coming to the forefront. This chapter has picked out the tensions and contradictions that did exist with the Luxembourgish housing policies. At the same time the comparison with the British and German cases also allowed to locate the nature of the political not only in observable developments as investigated here, but also in the subjectivities about homeownership, state policies, markets and economic

agency itself. It is also in such a line that the exact definitions and understandings of these terms come to emerge in the next chapter on naïve theories in the Luxembourgish mortgage market.

To render these political features explicit, the passive naïve theories about economic agency and of markets as essentially only a mechanism to distribute housing were not only setting aside alternative conceptions as demonstrated in the other case studies, but were also constitutive of the very price evolutions that the Luxembourgish market has seen. Again, the notion of micro-macro complementarities can be related to as certain socio-economic developments, not necessarily only markets, operate upon taken-for-granted assumptions of everyday agents. Second, these naïve theories implied that home ownership was the default tenure even to those citizens that were not making sense of an owned home in these terms. Third, the ontological aspects of the political of the Luxembourgish polity come in form of the taken-for-granted conceptions of policy-makers, but also with the structure of the policy-making process itself. Both contributed to state interventions that marginalised the tensions with markets and allowed for vast housing support schemes to be proceeded with. Fourth, such conceptions also sustained distributional consequences, such as making it progressively harder for younger members of society to access owner-occupation, and hence undermining the very naïve theories facilitated.

5 Conclusion

After the analyses of the British and the German case studies, this chapter has applied the same framework, laid out in chapters three and four, to the Luxembourgish housing market. In relation to the two cases that have been found to demonstrate different logics not only at the level of the individual-state relationship but also in the way that particular sets of naïve theories in relation in the housing market have been facilitated, the Luxembourgish case laid bare yet different characteristics. In terms of the ends promoted, the policy framework was similar to the British counterpart where home ownership was regarded as the most appropriate tenure for all members of society. However, as far as the means are concerned through which the latter were to be delivered, the Luxembourgish state displayed features more closely associated with the German polity.

This mix of features then entails that the Luxembourgish state interventions should be best seen as specific to particular circumstances as the categories of analysis do not always stand the empirical data. Just to compare, the individual-state relationship was in a sense even more direct than in the UK as the market intermediaries were not as pronounced. Whereas the British state policies were managing the market, and facilitating a specific form of economic agency that was consistent with active market participants, the Luxembourgish homebuyer was immediately linked to the state as a possible player on his/her side. Even though in economic terms, it was still the market through which the housing goods were distributed, the state policies were firstly not acting upon the latter, but was directly reallocating resources to the individual. It was

only when prices were seen as excessive that the market analogy entailed a shifting of policies towards the role of market-optimising. The quasi-right to home ownership was then not achieved through the bypass of market processes to be governed, but through direct state channels. In short, the notion of the market was not one widely used when making sense of the housing market.

However, this finding is not merely another example of how a focus on individual-state relationships can shed light into the way in which elements of modern capitalisms work, it also offers impulses to theoretical reflections. First of all, it demonstrates that the definitions of social ends and means are a matter of concrete state policies, not of universal concepts of the state per se. In this sense, this chapter reinforces the arguments stated against the ways in which the state has been treated in the literature on comparative capitalisms so far. Once an ontological position of the individual is set out, the role of the state in relation to the latter becomes a topic worth investigative efforts.

Second, the Luxembourgish case offers a potent counter argument against the tendency of dichotomisation and categorisation of varieties of capitalist economies. As has been argued in chapter four, it is necessary to look deeper into the policies to understand the inner workings of a capitalist regime. That is not to say that they were not coherent, it only means that the spectrum of potential models is not limited to two. If a regime is able to facilitate naïve theories that appeal to the human mind, and prove their validity through adequate policy-making, at least for a certain period of

time, then such a system must be judged to be a model of socio-economic organisation.

Third, if it is true that mixed or varied forms of capitalism can exist and do well in economic terms, that undermines arguments claiming the convergence of all capitalist regimes to one (Berger and Dore 1996; Fingleton 1999), but more generally it also offers a point of critique against the external imposition of a particular economic order as it threatens to undermine the consistency of naïve theories. The thesis does not argue that consistency is the ultimate goal in naïve theories for a socio-economic system, it only calls attention to the fact that the latter play an integral role in the way an economy works, for the better or the worst. Special care should be taken when policy interventions are performed as they might be in open conflict with existing understandings.

Fourth, even in a case where policies took over such an extensive role in the provision of housing, they were still falling back on certain narratives to make sense not only of state actions but also of what economic agency was meant to be. Although Luxembourgish policies painted a passive picture of the individual, they still made assumptions about how the latter was integrated into a wider regime of policies. This demonstrates that whatever the discourse, naïve theories about agency and markets play constitutive roles in the very way that socio-economic processes operate. As developed in chapter three and four, it is thesis' intention to call for a more careful treatment of conceptions of economic realities in order to understand diverse modes of capitalism. The concept of micro-macro complementarities can complement that

one of institutional complementarities here as taken from the VoC literature (Hall and Gingerich 2009).

Fifth, all three cases have displayed tensions in the policy design. In the end, they have all highlighted deeply political characteristics, first in the contradictions internal to the naïve theories they have been facilitating, and second in their action to violate the original position of the indeterminacy of the mind. The policy-making process itself has inevitably side-lined some sets of how to make sense of economic observations against others that have been imported into the official understandings of housing markets and the individual as an economic agent. As explained in theoretical terms in chapter three, this empirical analysis supports a reading of variation of capitalist regimes as being itself a political topic. At the same time, it also advances the claim that the ontological basis laid down about the individual is a starting point that allows for this approach to point at additional elements of politics of capitalist diversity.

After this investigation into policies in relation to Luxembourgish housing markets, the next chapter turns towards the mortgage markets and explore which naïve theories were providing sense not only to the markets per se, but also to the connections between the individual, the market, and the rationale for state intervention. It operationalises the framework of the thesis once again to demonstrate how different the definitions of markets and of the economic agent can be.

Annex II: Naïve Theories of the Luxembourgish Mortgage Market

1 Introduction

Once the Luxembourgish interventions into the housing market have been analysed, the mortgage market comes into focus. Just as in the other case studies, such complementary attention is needed to fully comprehend the nature of the policy approach and of the naïve theories promoted in relation to the ways in which individual agents were supposed to act when it came to the financial aspects of home ownership. As has been found in the previous chapter, the framing of the central housing issues according to concerns of affordability made implicit links between acquiring a house and financing such a transaction. Indeed, the very logic was that the affordability problem was not so much located in the housing market per se, but that it had led to price evolutions that rendered the on-going processes in the mortgage market unable to cater for the financial needs imposed through the housing channel. It thus becomes relevant in how far the latter was seen as feeding into the housing market, but also in which ways individual agents were meant to use mortgages to enter the ownership market.

Again the individual-state relationship is investigated. This chapter investigates the policies enacted by the Luxembourgish authorities by looking into policy texts and respective parliamentary discussions. Such an approach enables a depiction of the form as well as of the content of the policy-process and sheds light upon the taken-for-granted assumptions held by the relevant policy actors. It also analysed how such conceptions translated into justificatory narratives for the facilitation of naïve theories in relation to economic agents and markets. The very definition and conceptualisation of the individual as an economic actor are brought to the forefront to render explicit

the assumptions made through certain kinds of policy interventions. What this chapter is particularly interested in is the making of the good mortgager, in the sense that it highlights the central features of how Luxembourgish households were supposed to act in the realm of the management of private wealth with regard to an owned home.

In relation to the previous chapters on mortgage markets, this part falls back on relevant elements found beforehand to either draw parallels or contrasts with the British and German cases. But again, this is not a positioning exercise as such an endeavour could not allow for the conceptual flexibility that accounts for the empirical details found in this case. Still, as the Luxembourgish institutional setting has been characterised by its mixed character in the previous chapter, it is insightful to analyse the mortgage market interventions according to the same principles. Just as the previous chapter, this exposition engages in a comparison of the Luxembourgish mortgage market against those analysed beforehand but without categorising them on a scale or in a multi-dimensional space. As a distinctively capitalist economy, and hence society, Luxembourg constitutes another distinctive case, not merely in terms of its institutional design, but also in the way that economic agency and market processes were made sense of. With financial issues playing an essential role in the housing market, mortgage market policies are the logical next topic to look into. As for the previous cases, the hypothesis is that similar logics in the naïve theories of the housing market are found here.

This chapter then is yet another demonstration of how financial aspects of modern forms of capitalism can be analysed in ways that takes variations into account

(Watson 2009a). This chapter demonstrates that once the human mind is treated as originally indeterminate, and that the focus is shifted towards the making of a certain kind of individual in terms of an economic agent, the issue of the degree of financialisation of daily life (Martin 2002) is able to be investigated without excessive additional efforts. It is only an application of the general framework developed in the theoretical parts of the thesis onto topics of financial relevance to everyday people. It also underlines how crucial it is to present such an open ontology of the human being first as it allows the scholar to shed light upon the exact processes through which financial aspects play out in various forms of capitalism. At the same time, this method is able to set such developments into a much larger framework, first in terms of the underlying legitimisation mechanisms, and second as far as the political implications are concerned.

Indeed, one of the follow-up questions with regard to the understanding of the economic individual relates to the tensions in certain subjectivities and the differential distributional outcomes they legitimate. First, the very process of framing the individual in a specific way is a political act by itself as it does violence to the original position of the indeterminate mind by excluding other conceptions of the human being as an economic subject. This is equivalent with the inevitability of political features of all collective action as it sets out the domains of the good and the bad. Second, the model of agency promoted, and hence the variety of capitalist socio-economic organisation, distributes life chances in unequal ways between certain social groups of the population. As such, it favours specific layers of society more than others, even if such differences might not be obvious from policies at the first glance. It is here where the second political character of the definition of economic

agency lays. Again, that is however not to state that the latter is necessarily openly politicised.

The chapter is set up in three parts. The second section here describes the main traits of Luxembourgish interventions and reviews the policy-making process in relation to mortgages to find out about the directness of the legitimisation process. It also highlights the links that were drawn between the mortgage market and the wider housing context. Third, the theme of financial prudence is investigated through the policy texts and parliamentary debates that were describing proper financial behaviour by private individuals. It becomes obvious that concerns with careful wealth management were central to axio-rationality facilitated, but at the same time did not grasp the totality of the approach to the good mortgager. Fourth, the political elements in a certain conception of mortgage markets are analysed to demonstrate which tensions were arising not only from state interventions but also from the understandings of the latter. A complex picture of how state policies and economic agents relate to house price trajectories is depicted for the Luxembourgish case.

2 Conceptualisations of Mortgages

Apart from the housing policies per se, the Luxembourgish state policies also enacted policy elements that were targeting the ways in which individuals were assumed to behave in the mortgage market. These were not always explicitly mentioned as such, but the way in which the policies were designed reflected a set of taken-for-granted assumptions that saw the intertwining of housing interventions and financial

concerns at their very centre. As highlighted before, the framing of housing issues on the basis of the concept of affordability was indicative here. As in the German case, the housing legislation contained prescriptions of how good financial management was to look like. Such policy-outcomes not only assumed that the process of acquiring home-ownership was requiring large amounts of resources, but also that the social categorisation that was adequate for housing was applicable for financing the latter.

In other words, as the financial arm of central to housing, those individuals qualified for resources that were seen as deserving homeowners. As the housing schemes themselves contained indications about mortgage behaviour, the legitimisation mechanism for the latter was intertwined with housing aspects, mortgages being desirable not per se but in relation to the social outcomes they contributed to in terms of the acquisition of an owned home. Simultaneously, this also meant that a mortgage was strictly seen as a way to acquire housing property (Mémorial A 16). This reinforces the argument found in the previous chapter that the procurement of decent accommodation was regarded in terms of outcomes. In this sense, the mortgage market was regarded as a means to the accession of home ownership, not as a sphere governed on its own.

Even though the end of home ownership was targeted at the practical nature of housing in terms of its material qualities and not according to its mere financial value as was the case in the UK, it was obvious that the Luxembourgish policy-makers regarded the mortgage market as feeding into the housing market. As seen in the

previous chapter, the rising entry barriers into home ownership were only an issue because the loans taken out could not keep up. The focus on “financially accessible housing” (HC C-1997-0-020-0002, p. 1106) was indicative of these linkages. As such, both the naïve theories in mortgage and housing markets need to be studied side-by-side. Indeed, the subjectivities facilitated in the one sphere of the economy and of the other needed to be coherent in order to present naïve theories that were making sense of the intertwined nature of the two. As such, certain conceptions of markets but also of economic agency were constitutive of wider economic evolutions. Or to use another concept, micro-macro complementarities existed in the sense that the understandings of mortgage markets played into the ways that they were operating in relation to the home ownership market, and hence the house price evolutions set out in the previous chapter.

When it comes to the 1979 legislation on housing, these policy texts already included a significant amount of regulations that established the ways in which financial aspects were to be covered in order to ensure a high degree of owner-occupation (Mémorial A 16). In fact this text was concerned not so much with the functions of home ownership per se, but much more how state interventions could intervene in helping agents to access it through “individual aids” (p. 294). Again then, the moral end of home ownership was not explained in terms of legitimation strategies, but instead it was taken for granted, state measures contributing to such unchallenged notions. The policy hence mentioned paybacks, interests and mortgages in relation to the financial tools that state policies were falling back to in order to target the individual either directly or through market intermediaries. This section dissects the

various policies and parliamentary discussions to look deeper into their underlying processes and the understandings of economic phenomena that they put forward.

The Luxembourgish policy-makers had the power to offer guarantees to borrowing institutions so that the latter could offer mortgages to households that wanted to buy or build their own home (p. 294, HC E-1997-14-01, p. 54). State policies offered guarantees to the financial industry stating that the repayments would be provided, and that in case of default, public money was to be used to compensate for financial compensation. Even though this scheme was not a direct financial involvement into mortgage markets, it significantly reduced the uncertainty of costly defaults to the financial institution (Ciochetti et al. 2003). As such, it was able to offer loans to more households than it would have otherwise done. In this sense, the denomination of “individual aid” is ambiguous as it did not target the individual directly. Only by acting upon the mortgage market itself were state interventions able to reduce access barriers into mortgages and hence into home ownership.

By infusing a sense of security into the market, state policy considerably altered the lending conditions that only then filtered down to economic agents themselves. In relation to the suggestions made in the previous chapter about the state policies actually playing a role in the house price evolutions (HC C-2002-0-041-001), this observation seems consistent. By using resources that had been accumulated through the taxpayer channel, state policies were indirectly lowering the financial criteria according to which first-time buyers could afford to move into the ownership market. This signified that public i.e. collective means were used to support potential

homeowners, even if this only operated in the background through the guaranteeing scheme. Home ownership, in theoretical terms but also in its practical ways of how households could access it, was depicted as worth of collective support (HC J-2001-0-1584, p. 2). As such, mortgage market policies underlined the subjectivities that home ownership was regarded as the default tenure, largely indifferent of the social conditions of individuals (HC I-2002-0-1005, p.1). At the same time, they also legitimated the transfer of public money towards first-time buyers, a distributional consequence justified through such naïve theories.

This policy displayed parallels with the British case where in a similar vein market processes were sustained in order to lower accessibility barriers into the ownership market (HC C-2002-0-004-0005, p.23). One significant difference however was that markets were supposed to be optimised in their outcomes through enhancing the agential capacity of the individual, whereas the Luxembourgish intervention was at the level of the financial institutions themselves. Whereas the ends of both policy regimes were similar, the means were different, especially in their definition of the linkages between mortgage and housing market, but also in their conception of the how state interventions were supposed to act upon ownership affordability. However, in both cases house prices were characterised by steady growth paths, with the difference that they were sustained only in the Luxembourgish case. However, the political tensions were no less present here as the previous chapter has already demonstrated.

The 'allowance in favour of housing' was following a different logic as it was not passing through the mortgage market but directly targeted the individual (Mémorial A 16, p. 295). That is however not to say that it did not have a financial aspect. On the contrary, even if it was bypassing the market it was still facilitating the accumulation of resources that would enable low-income families to enter homeownership (HC E-1997-14-01, p. 57). The political end was thus identical, an indication that the Luxembourgish policy-makers were consensual in their judgement that owner-occupation was the adequate tenure for its citizens. But it also showed that the policies in relation to the mortgage market were inconsistent, one helping mortgagers in offering more favourable deals, the other one directly targeting the individuals that want to acquire housing property. It was hence impossible to talk about one approach to mortgage markets as multiple logics were at play. The mixed individual-state relationship observed in housing policies is also found here.

The 'interest subsidy' intervention was yet another way to support future homebuyers. Indeed, the Luxembourgish state policies offered to relieve individuals from part of the interest they were meant to pay on their mortgages (Mémorial A 16, p. 296). In other words, state policy was again falling back on public money to cover mortgage costs of potential homeowners. This time, the lending structure of financial institutions was not altered but the interventions took sides with the individual economic agent directly. By offering to pay part of the mortgage cost, the logic was that it allowed future home owners to take out a more substantial loan than they could have otherwise afforded to pay back. By shifting the immediate repayments upon the state budget, policy-makers took pressure off households to move into more considerable mortgages. At the same time however, the introduction of these policy

interventions back in 1979 undermined their own efficiency over time as these favourable conditions were coming to mean ever rising requirements of downpayments (HC C-2000-0-064-0001, p. 2423; HC Q-2007-0-E-2053-01, p. 2). This tension was similar to the ones that has been investigated in the British analysis.

It is also worth mentioning some technical details with the interest relief programme as it provided more insight into the conceptions of the individual in relation to mortgages. First, the amount of effective relief was calculated according to the revenue and the family situation of the beneficiary (HC A-2003-060-002, p.1023). The highest amount was reserved for households with six or more children that had the least income, with the allowance progressively going down with increased income and a decrease of children at charge. Single people with a very high income were not benefitting from the scheme whereas big families (six children or more) were always granted a discount on their interest payments, even if small. This was to say that individuals that have to cater for a family or were in a less favourable situation themselves had a right to get public support when they wanted to acquire (or reconstruct) their own home. As with housing, the Luxembourgish state policies differentiated according to social classes but in a much smoother way than the German counterpart did.

Second, the relevancy of this programme was noticeable in two instances. Apart from it being by far the most extensive scheme in terms of annual resources granted and the way it increased in its coverage over the years (HC E-2007-19-02, p.49), the amount of interest costs covered by the policy was adopted on a frequent basis to match the

evolution of the base rate (HC A-1999-055-0007, p. 1327). This meant that the financial details of the law were corrected so to match with the general economic situation of the overall economy. Such a process then avoided the programme to favour certain layers of society in ways that were not consistent with the naïve theories about which individuals were to benefit most from state initiatives. In other words, the target of the policy was able to be maintained over time.

As regards naïve theories about good financial wealth management, this policy portrayed debt as essential or even necessary in the process of acquiring home ownership (HC C-2005-0-007-0006, p. 56, see also Ingham 2001). As set out, the interest subsidy was incentivising agents to move into debt in a more considerable way that they would have otherwise been able to, effectively promoting the naïve theory that the reliance on external resources was not only morally correct but was also supported by the public authorities. This was in stark contrast to a series of other elements built into the policy design that were putting forward much more prudential ways of financial behaviour. Even though these are only analysed in the next section, it can already be argued here that the Luxembourgish state interventions were mixed in their targeting and the ways they operationalised the means to access homeownership (HC C-2002-0-004-0005, p. 23).

All these policy elements give clues about the exact individual-state relationship in the Luxembourgish mortgage case. As has been noticed in the housing chapter, the findings for the mortgage market also hint at a mixed relationship as far as the legitimisation regime goes. In the end, all of the policies were targeted at the individual,

but the ways in which this was done greatly varied, especially in how far they play on market rationales. In the most significant programme, the interest subsidy scheme, the state policies took on the role of the individual and stepped in to pay part of the mortgage interests. This was indicative of a direct legitimization regime where policy-makers were interested in the economic well-being of citizens. However, the guaranteeing policy pursued a very different logic, one that first played into the hands of mortgage companies and only then into those of future homeowners. So even though the targeting was largely towards individuals, the legitimization regime displayed more diverse facets. The variety of approaches suggests that the interests of diverse policy-actors had to be taken into account (HC I-2002-0-1005). The policies were then not only justified in terms of what they were to achieve for the individual, but also for the other actors like the financial sector for instance (HC J-2002-0-0970) as is described below.

3 Financial Prudence and Conceptions of Agency

Following on from the theoretical chapters and more specifically from the development of the concepts of indeterminacy of the mind and of naïve theories therein, this section explores in more depth the depiction of the individual agent as financially responsible (Godfrey 2004). As the literature review has pointed at, not only is the literature of Varieties of Capitalism limited in its focus on firms but so are also accounts of the state in comparative economic regimes as they offer an incomplete ontology of centrality of the individual to the type of capitalism at hand. After the more general analysis of Luxembourgish interventions into the mortgage market, the exact mechanisms of the making of the good mortgagee are looked into

here. This is crucial as the central argument of the thesis has been about an alternative and constructivist approach to economic models and a deeper understanding of the position of the individual in relation to the state within them. The very definition of economic agency then becomes a variable in the design of models of socio-economic organisation that relates to macro-economic developments in terms of micro-macro complementarities.

As has been pointed out briefly before, the way the mortgage policies were set up in relation to housing was indicative of a concern with individuals being financially prudent when engaging in mortgage activities (HC Q-1996-0-E-0214-01, p. 398). Even though this was inconsistent with the interest relief scheme that promoted the taking out of debt, the conditions linked up with the guaranteeing programme depicted debt as rightful in particular circumstances. Indeed, the state policies were incentivising individuals into certain patterns of behaviour as far as a particular savings habit (HC E-2007-19-02, p. 47 ; see also Watson 2008a) went by connecting the granting of its aids to financial requirements (HC C-2002-0-004-0005, p.25). But it was not only that these conditions acted materially upon people's behaviour, they also facilitated naïve theories about how to handle financial matters more generally.

The guarantee (...) is only granted to the borrower who is in possession of a special account called 'housing savings account', or, if such an account does not exist, brings proof of regular and constant savings for at least three years (Mémorial A 16, p.294)

This quote was acting as a direct association between home ownership and savings patterns. Such a legal text facilitated a view that own resources, saved up over a longer period of time with the specific aim to acquire home ownership, were essential when home ownership was sought (Mémorial A 92, p. 1552). The rationale of the guarantee underlined such a conception where the agent first made the necessary concessions in terms of spending to accumulate wealth before the state interventions were ensuring additional credit was accessible at a more affordable rate (HC E-1997-14-01, p. 54). In terms of agency, the individual could only count on state aid once he/she had put him/herself in a situation where the risk of default had been minimised before state interventions took place (HC Q-1996-0-E-0214-01, p. 398). Other elements in this scheme attested more evidence to such a conception of economic agency.

Indeed, the conditions under which the policy was valid were very detailed. The state guarantee could only cover a maximum of 30% of the total costs of the home to acquire or built, and was only granted once the beneficiary had obtained a mortgage of 60% of the price of the property to acquire or built. However, the loan taken out under this programme needed to be at least hundred and fifty percent of the own resources (Mémorial A 16, p. 295). In order to make sense of these figures, some comments are necessary. First, the guaranteeing scheme was not covering the full mortgage taken out, but only a maximum of 30% of the price of the home to own. This meant that the intervention by state action was limited. It was hard to evaluate how much more favourable credit conditions were becoming with such state action, but it definitely meant that the individual borrower only felt the effect indirectly through the communications with the financial institution. Even though the policy

was targeted at the individual, these details pointed towards an indirect legitimization regime where state action was not immediately obvious to the eyes of the economic agent.

Second, to benefit from such aids the mortgager had to get a 60% loan granted in the first place, with that figure representing at least 1.5 times the saved resources. Again these elements gave mixed clues as far as naïve theories of savings and mortgaging were concerned. On the one hand, individuals were incentivised to provide regular savings in order to qualify for the scheme (HC C-2002-0-004-0005, p. 23). This was highlighted with a condition that the guarantee only stepped in if the costs of paying back the loan were not outreaching a third of the disposable income of the beneficiary (Mémorial A 16, p. 295). On the other hand, the mortgage to be acquired on the back of the latter was fixed with a minimum, hence pushing individuals to take out a relatively large sum. Even though the mortgage guarantee was capped to a fixed level, it could still be argued that such policy elements suggested that once a certain amount of savings had been set aside, a considerable mortgage was consistent with good financial management principles.

In order to make further sense of the ways the economic agent was defined in the Luxembourgish policy-making context, another savings scheme in relation to the homeownership market needs to be consulted. Apart from guaranteeing a part of the mortgage with public money, the state also supported households up to an amount of 5000 euros with their interests (HC E-1997-14-01, p. 41). Again then, taking out a mortgage was considered to be integral to the process of entering housing property. This

led to the legitimization of the accumulation of debt and of more favourable lending conditions for individuals. Just as the guaranteeing programme, this intervention helped potential homeowners to step over the entry barriers of the mortgage market (HC C-2002-0-041-001, p. 500). Whereas the first scheme acted upon lending institutions, this effort targeted the economic individual directly, mirroring the approach described above. In terms of the individual-state relationship, these actions demonstrate the multiple dimensions according to which Luxembourgish policy-making was implemented.

Interestingly, the savings allowance had been changed in 1994 to drop the condition for beneficiaries to have children at their charge (HC E-2006-04-02, p. 40). As underlined in the previous chapter, the family dimension was present in the naïve theories of how much support the state should grant to certain socio-economic groups, but it was not a criterion of exclusion (HC I-2002-0-1005, p.29). Home ownership was supposed to be the tenure of choice not only for families with children, but also for single people. The rationale was merely that individuals were helped to a larger extent as they had to cover the costs of raising children, but not that ownership was best suited for families, as was the case in the German case. The reason for supporting families more extensively followed pragmatic reflections about the expenses of households, not moral assumptions about who home ownership was best for (HC A-2004-105-0001, p. 1644). Indeed, children were regarded as members of society on their own that were taken care of by their parents for a certain amount of time until they were able to provide their own income. This policy was then characterised by a targeting of the individual, not certain social groups.

These findings shed more light onto how essential the motive of financial prudence really was in relation to individual mortgage behaviour (HC Q-2000-0-E-0874-01, p.3; see also Buchanan 1985; Eisenhower 2000). There was a certain degree of ambivalence in the application of the concept. Two sets of tensions were discernable. First, the notion itself was consulted for reasons that possibly undermined its very principle. Savings were first promoted in the naïve theories about how to go about to access the ownership market, it was then also taken as a condition upon which to take out a considerable mortgage (HC C-2005-0-007-0006, p. 56), and thus moving against the concept of prudence. This was at least the case for the individual lender, it might not have been so on a systemic level. Indeed, as the state guarantee was covering a maximum of 30% of the loan, that might still be judged to be in line with prudential behaviour. Still, in relation to the issues that this thesis is mostly interested in, a policy that facilitated savings and mortgages at the very same time stood in ambivalence to the sole category of financial prudence.

Second, once the adequate savings could be demonstrated, the financial support to enter the ownership market turned the prudential notion from a moral principle into a necessity. Whereas initially prudence was depicted as the proper start on a long way to enter owner-occupation, later on it was presented as the very problem in relation to the affordability issue (HC C-2005-0-007-0006, p. 56). Indeed, the problem identified was that personal savings were inadequate relatively to the mortgages that were necessary to acquire housing property. Again, this evolution displayed the interconnectedness between housing and then financial markets as the price levels in the ownership market were rendering the very naïve theories ambiguous, possibly even ineffective. Still, the Luxembourgish state officials was sticking with this set of

conceptions (HC Q-2005-0-E-1180-01; HC Q-2007-0-E-2053-01), even if that meant that policy-makers were helpless against ever rising property prices. Indeed, when the Prime Minister claimed that the house price trajectories constituted a personal failure for himself, it was not only a statement about the state of the market, but also about the state of the naïve theories that had brought it about (HC C-2005-0-007-0006, p. 54).

More generally, it was an acknowledgement that the theories upon which mortgage and housing policies had been set up against were no longer able to offer the explanations of how to move on, not for policy-makers, nor for the individual. As far as at the latter went, the economic agent first had to fulfil the conditions imposed by state policies before claiming support. In a mixed type of agency, the individual had to show first that he/she was behaving properly in the sense of being able to manage income in a way that was focussed on regular and long-term saving. It was only once those capabilities had been demonstrated that support was granted with the payment of mortgage interests and other means (HC E-1998-25-02, p.39). State interventions were directly facilitating savings behaviour with the individual, but they were also helping financial institutions offer more favourable mortgage conditions to low-income households.

In terms of agency then, the setup of the policy programmes demonstrated that the individual was regarded as the central driver behind efforts to access homeownership, the tenure of choice for all. But in contrast to the British case where individuals were seen as the ultimate constituents of market forces, the Luxembourgish policy-makers

saw a much more extended role for the state interventions in relation to helping potential homeowners into their home. Largely leaving aside any conceptualisations of the market, the state policies were placing the institution of the state on the side of the individual to reduce the entry barriers. The directness of the support meant that apart from the savings behaviour, economic agency was a rather passive conception where the individual could fall back onto state support to help not only in opening opportunities but actually in delivering owner-occupation directly. Again, the outcome of policy in terms of personal achievement was justifying the role of the polity, striking the balance in favour of a direct legitimation regime.

The latter was thus based upon what state interventions could offer to citizens, underlining the passive nature of agency. Even though policy elements were making claims about how individuals should behave, that did not automatically mean that agents were defined as active profit-maximisers in the British sense. The programmes and policy-makers were certainly talking about the individual, but at the same time they were depicting the state as a central player in rendering ownership accessible for the majority of citizens. The Luxembourgish regime followed various rationales, where in the end the passive nature of economic agency and the moral end of ownership for all were unchallenged. Why else would it have been such a dramatic case of state failure that homeownership was becoming a dream rather than reality? Such a statement was symptomatic of the conception of strong state and an economic agent that, once the basic economic modes of behaviour were fulfilled in terms of savings, was reliant upon the latter.

As far as the legitimization regime goes, it is fair to say that even though care needs to be taken when making such a statement, the direct features of the individual-state relationship dominated for the reason that policies tended to be justified for the good they were delivering for the individual him/herself, not for larger socio-economic objectives. This then confirms the hypothesis that similar logics were at play in the Luxembourgish mortgage and housing market.

4 Markets as Neglected Elements in Naïve Theories

After an analysis of the mortgage programmes and the positioning of the individual within them, this section investigates what role the notion of the market was playing in the Luxembourgish context. When it comes to the distribution of mortgages and housing, market mechanisms are at the very centre. However, that does not need to mean that all coordinative discourses display the same approach to how and to what end markets are supposed to work. As price evolutions are reflections of market forces and hence influence how official authorities are making sense of economic realities, the exact way in which the latter were conceptualised comes to the forefront here. Although this chapter has rarely mentioned the concept of markets so far as it was not an essential part of the discourse, the next paragraphs highlight why and how it still mattered a great deal.

Following from the expositions about the focus upon outcomes in the policy design and the subsequently rather passive model of economic agency facilitated by state policies, concrete and complex notions of markets seemed remote from housing and

mortgages (HC C-2002-0-041-001; HC E-2006-04-02). Even though the level of interest that was covered by the relief scheme was adjusted according to the evolution of the base rate (HC I-2002-0-1005, p. 14), this move was not mentioned in policy discussions and hence was not debated in economic terms of markets. It was seen as a technical adjustment rather than a political intervention (HC A-1998-097-0001, p. 2404; HC I-2002-0-1005, p.2). Also, neither policy text nor the parliamentary debates were going into any detail about the economic mechanisms of how state action was supporting the individual. Again, the exact way in which such interventions were supposed to work, surely through market mechanisms, was secondary against their aim to help individuals move into owner-occupation. In other words, the attention on outcomes was not only depicting the state as a central actor in the determination of house prices, but was also sidelining a focus on the working of market processes (HC Q-1999-0-E-0256-02, p.2422). Indeed as markets needed regulation, state policies were better placed to intervene directly (HC C-1997-0-020-0002, p. 1119)

This comes back to the legitimisation regime that was entailed from the individual-state relationship. Policy-makers took on an extensive role not only in the provision of home ownership but also in helping the individual to access credit that the allowed market entry (HC Q-1999-0-E-0256-02, p.3). As such, market concerns were marginalised, even though they were still operating in the background. This then led to the depoliticisation of the mortgage market as it was merely conceived of as a tool to achieve socially accepted aims, meaning the provision of housing property. Because state policies were able to overcome the entry barriers into markets through additional measures, the political aspects of the latter were not becoming obvious for

a certain time (HC J-2001-0-1584, p. 2). However, there are clues that suggest that with time the schemes were unable to keep up with the house price trajectories.

Firstly, there were comments in parliament that the mortgage packages were undermining their own efficiency as they were contributing in pushing prices into price levels for which state policies were not designed (HC C-1999-0-045-0003, p. 1627)

In sum one notices that we have too little affordable housing here in Luxembourg. (...) The state helps a lot but the housing market – and that is also a fact – eats up parts of these aids quicker than they have been created or increased. (...) Some banks now even offer loans with a duration of 40 years as they have noticed that people cannot cope with 25 years. (M. Di Bartolomeo, LSAP: HC C-2000-0-064-0001, p. 2)

Even though market mechanisms were not conceptualised in the policy setup, they came to undermine their effectiveness over time. It was exactly because the financial realities were complicating the task of lending institutions in the distribution of credit that the political programmes were becoming less influential on market processes (HC I-0-M-2137-01, p. 1). The focus on outcomes was undercutting the means through which they were to be achieved. Whereas before state interventions had highlighted a set of naïve theories that they were a central element in the provision of mortgages, market realities and hence profit-making rationales of financial actors were considerably eroding the latter (HC C-1999-0-045-0003, p. 1627).

Secondly, and this had been observed in the British case as well, state efforts also rendered the entry barriers into the ownership market more pronounced (HC J-2001-0-1645, 1 p. 9). The support that public policy was granting to individuals on the back of a naïve theory that home ownership was the default tenure for all members of society and that the state as an institution had its role to play the delivery, was making this very help more difficult to provide. Again, even though these basic market principles were not taken into account, the mortgage policies were creating economic and political tensions that they were supposed to solve in the first place. An interventionist state had been able to depoliticise housing through its mortgage policies, but it were the latter as well that brought up a situation where market mechanisms were displaying the tensions of such efforts. As such, the role of state policies as delivering home ownership for all was hitting a point of resistance that was not only technical, but that was deeply political. Indeed, even though such policy initiatives were supposed to provide ownership for the vast majority of the population, this very objective was building up barriers for younger citizens to acquire their own home.

In the problematisation of the affordability issue, the tone was a very different one. This section claims that mentioning market procedures at this stage was a move that again allowed the depolitisation of the situation. Framing the theme in terms of a mismatch or disequilibrium between offer and demand in the housing market (HC C-2002-0-041-001, p. 507) and implying that the mortgage market was unable to provide the necessary levels of accessible credit was a way to downplay the role of the state intervention at that point (HC Q-1999-0-E-0256-02, p. 2421). Not following the route to work more closely with the industry, as had been seen for the British case,

the Luxembourgish policy-makers were also unwilling to place the responsibility with the individual agent. Indeed, the passive conception of agency had made such an interpretation nearly impossible. In the end then, the rather vague and impersonal market analogy was certainly correct in technical terms, but it also offered an explanation for much more complex and political developments that had taken place. Also, the referral to building area speculators in vague terms that did not single out specific individuals was another method in this context that was replicating the vague use of economic notions (HC C-1999-0-045-0003, p.1627; HC C-2000-0-064-0001, p.2430).

This shift in the way in which markets were depicted once the issue of affordability was openly discussed in parliament underlined the particular nature of the Luxembourgish legitimisation regime. The schemes that allowed individuals to access credit in the form of mortgages and subsequently to enter the home ownership market combined elements from both case studies performed beforehand. The directness in which the economic agents were promised access these social ends was matching with the British focus on the individual, even though the Luxembourgish case is less clear-cut. However, whereas the latter was falling back on market mechanisms and an active conception of economic agency in order to achieve this aim, the Luxembourgish naïve theories saw the state in the role of a 'dirigiste' provider (HC C-2002-0-041-001, 509; see also Clift 2006). The notions of market-enabling and even of market-optimising did not make sense as markets were side-lined, or at least not acknowledged as channels of the provision of housing. These strong direct interventions from state policies were more in line with the German counterpart that had set out criteria in how housing markets were supposed to work. This then led to a

legitimation regime where the state officials had taken upon themselves the task to provide an owned home for virtually all its citizens without really exposing why that was adequate. In this line, the framing of the affordability issue was done in an imprecise invocation of the market. The repetitive calling but no further explaining of the denominations of ‘demand’ and ‘supply’ were indicative of a rather basic understanding of market processes (HC C-2005-0-007-0006, p. 55).

It was only when the Prime Minister was openly acknowledging that state policy, and even the state per se, had failed in the task to keep homeownership affordable in Luxembourg that the theme was politicised (HC C-2005-0-007-0006, p. 54). The housing crisis, to repeat these terms here (Becker and Hesse 2010, 412), was not one of strictly economic nature, but was also one of the naïve theories of owner-occupation and mortgage behaviour facilitated beforehand. The perplexity displayed was certainly related to the economic situation, but even more so to the causes that had brought it about and measures that were to be taken (HC Q-1999-0-E-0256-02, p.2434). Once the conceptions of mortgage markets as playing the role of providing credit to relatively passive agents had come to a halt, the situation literally did not make sense anymore (HC J-2001-0-1584, p. 6).

The tools that had been able to explain the domain of mortgages and housing was been depleted of theoretical points of interpretative certainty so that the original position of the indeterminacy of the mind re-emerged. In such a context of meaningful emptiness, it was impossible to suggest solutions as the latter would have meant giving up the established naïve theories (HC J-2003-0-1012, p. 2). What was

clear that more state intervention was needed to bring prices back in line (HC Q-2005-0-E-1180-01,p. 1). The ends were then maintained, emphasising the existing conceptions of home ownership and of the role of the state (HC Q-2006-0-E-1482-01; HC Q-2007-0-E-2053-01). However, how this was to be achieved was less clear.

Even though owner-occupation was effectively distributed through market mechanisms, the strong reliance on state intervention to cater for housing needs entailed a poor degree of market governance, but also little efforts to facilitate a more active axio-rationality. It was curious that whereas policy-makers tended towards removing the political content out of housing through an interventionist approach, it was the markets that showcased their inevitably political character. For instance, an allowance that supported the acquisition of homes either by building or buying an existing building became to act against the ultimate aim of allowing wider sectors of the population to access homeownership. Whereas the aid was progressively supporting more construction projects (HC E-1997-14-01, p. 39), this tendency turned over to the acquisition side (HC E-2005-06-02, p. 62). A policy that was meant to neutralise the terms of credit access irrespective of the financial position of the individual beneficiaries was then overly used to promote acts of buying existing stock and driving prices up instead of bringing a more extended offer to the market (HC C-2002-0-004-0005, p. 29). In the end, sidelining basic market principles came to haunt the Luxembourgish policy-makers, at least the Prime Minister.

In order to explain such a reticence to engage with economic studies of mortgage and housing markets, it is worth falling back onto the institutional features of the decision-

making process. Key explanatory features here were the multi-actor constitution of the policy-making process with professional bodies being represented, and the technical focus on the legality of policy texts. These points meant that input from economic policy-advisers was limited (HC C-2002-0-041-001, p.500). First, the legal professionals of the State Council were concerned with the notions of rights (HC J-2001-0-1645) and the duties of the state in relation to its citizens. Second, the representatives of the professional associations were pushing forward their specific interests. Thirdly, the members of parliament were interested in gaining political capital for their party in relation to the electorate and hence legitimate the current consociationalist state. The purely economic mechanisms were underplayed in such a context, but re-emerged in form of the affordability issue, more precisely the problem of mortgage accessibility (HC J-2001-0-1763, p.6).

In sum then, a passive conception of economic agency and an active role of state intervention were coupled with a limited set of naïve theories about markets. As the mortgage market was merely seen as a neutral intermediary that could help in the effects to distribute home ownership among all members of society, the inherent political tensions were not fully taken into account. Apart from the affordability issue that was undeniable at a certain point in relation to the price evolutions, the discussions involved little openly political content in general. This was an indication that mortgages and housing were largely depoliticised for a considerable amount of time. As the upwards price trajectories were playing into the hands of a majority of households, the dynamics were legitimating themselves though their outcomes, once again highlighting the directness of the Luxemburgish individual-state relationship. In a sense then, it could also be argued that the programmes were successful not only in

providing home ownership, but also in enabling the accumulation of private wealth without this process being debated along explicitly political lines.

5 Conclusion

After the analysis of conceptions of markets and economic agency in the Luxembourgish housing market, this chapter has focussed on the naïve theories facilitated in the mortgage market. A first finding was that the two spheres need to be studied simultaneously as the policy-makers were linking them in the coordinative discourse. Indeed, the housing policies themselves contained numerous references to the financial aspects of entering home ownership through saving practices and taking out mortgages.

Indeed, the allowances in relation to housing were conditioned upon certain patterns of financial behaviour. It was only once the individual had demonstrated a certain degree of responsibility as a saver that state aids were granted. However, that is not to say that the principle of financial prudence was univocally dominating the policy setup. Indeed, state interventions also allowed households to take out considerable mortgages, which then acted counter to the initial motive of financial discipline. This was only one example of the tensions inherent in the naïve theories that were set out to make sense of mortgage markets and their inter-linkage with the acquisition of housing property. In general, as in the case of housing policy, the Luxembourgish regime did not display a clear-cut individual-state relationship as in the British and German cases analysed. As the central focus was on the outcomes that the public policy was helping to promote ownership for the individual, the focus of legitimisation

was very much one where an interventionist approach was able to move additional individuals into home ownership. Even though the individual was not seen as an active constituent of market outcomes, the latter justified not only the policies but also the individual-state setup itself.

This also meant that the mortgage market was mostly seen as a tool in the distribution of home ownership among the population. However, as outcomes were primarily regarded as such and not in relation to the exact way in which they were to be achieved, markets were not conceived of as economic entities that carried political weight, but as mere intermediary between the individual and the state policies. The type of economic agency promoted was in line with such a reading of markets. Indeed, apart from savings efforts, the economic agent was not asked to operate on its own in terms of making sure him/herself was active in the procurement of housing property. As the discourse was depicting the state as a key player in the housing market, and hence also acted upon lending conditions, the individual was seen as a rather passive taker, on the one hand of state support, and on the other hand of market developments. Indeed, individual actors were not understood as being the sole constituents of market outcomes.

However, it were exactly these market principles that then led to an affordability issue as house prices had moved up to levels with which mortgages were judged to be out of line. In other words, the efforts to lower the accessibility barriers into the mortgage market had entailed a situation where the latter were actually making it progressively harder for individuals to join the status of the home owner. The framing of the situation in the technical and impersonal words of demand-and-supply inadequacy

was indicative of the limited attention that had been devoted to the economic but also political underpinnings of markets. It was at this point that the naïve theories that had contributed to the justificatory narratives of an interventionist state were starting to lose their explanatory power. In fact the statements of the Prime Minister as excessive prices being synonymous with a failure of the state underlined the conceptions of the policy-makers as having a duty to fulfil the quasi-right to home ownership. It was also here that the deeply political nature of the naïve theories promoted became obvious as the tensions internal to them could not be explained away by outcomes of social support. Indeed, the inevitably political nature of naïve theories in distributional terms was becoming apparent.

In relation to the contribution of the thesis, this chapter has offered yet another example of how different conceptions of markets and economic agency can be in apparently similar economic spheres analysed in various socio-economic contexts. At the same time it has also displayed how essential taken-for-granted assumption of policy-makers and naïve theories are to fully understand not only state interventions but also socio-economic evolutions like house price trajectories. The Luxembourgish case has shown differences both in relation to the two cases analysed beforehand, which suggests that the indeterminacy of the mind can temporarily be filled with a whole range of sets of interpretations that all carry political weight as they define notions of good and bad. Such an observation supports the theoretical starting point here that in chapter three described in some detail of why and how focussing on the individual can contribute to the literature on Varieties of Capitalism.

As found in the earlier chapters of this thesis, such a perspective also allows a reading of models of capitalism that adds a layer of the political to the current literature. As for this case, the political features are again of four natures. First, the naïve theories facilitated as far as the market and economic agency go implies that both the home ownership and the mortgage market were working on specific understandings that were functional to them. In other words, these conceptions and the macro-economic developments were complementary. Second, these subjectivities then also implied that some individual behaved more in line with them than others, in other words that they introduced good and bad mortgagers, some more worth of state aid than others. Third, the taken-for-granted assumptions of policy-makers in relation to the individual not limits the domain of policy instruments that are regarded as adequate, hence eliminating others a priori. In this case, the state policies being so focussed on the delivery of home ownership side-lined aspects of housing finance that concerned the financial industry or demographic planning for instance. As such, these conceptions were elementary in the form and content of the mortgage policies enacted. Fourth, the policies themselves has distributional effects, like favouring one generation of households but simultaneously building up barriers for the next one to access this tenure. In this sense, one could argue that such schemes were unfair as they favoured those generations whose parents were already well established into the market of housing property, hence potentially enforcing social inequalities over time. In other words, these state policies impacted upon the life chances of everyday people.

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